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EDMONTON, ALBERTA

AND

A FEDERAL PROVINCIAL WORKING PARTY

TRADE SECRETS

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PREFACE

General

This Report is the result of an exercise in collaborative law reform. In 1984, the Alberta Institute of Law Research and Reform (in circumstances which are detailed in Chapter 1 of the Report) took the initiative in endeavouring to advance civil law reform in this subject area in Canada (See, Report for Discussion #1, Protection of Trade Secrets). The Deputy Attorneys General Responsible for Criminal Justice also thought it appropriate to consider this subject area, and struck a Federal/Provincial Working Part to assist them in resolving what changes to Canadian law might be appropriate.

What follows in this Report therefore serves two related purposes: The Report serves both as a final Report by the Institute to the Attorney General of Alberta and as an advisory Report to the appropriate Deputy Attorneys General of all the Canadian jurisdictions.

The Report does not presently have the endorsement of any government. It is advisory only, and it is for the relevant jurisdictions to assess, and, if thought appropriate, to act upon the recommendations for legislation suggested in the Report.

Regardless of the legislative outcome, the Report also forms the first research study of both civil and criminal law protection of trade secrets in Canada, and may be thought on that account to represent a useful research addition to Canadian jurisprudence.

The Institute of Law Research and Reform

The Institute of Law Research and Reform was established January 1, 1968, by the Government of Alberta, the University of Alberta and the Law Society of Alberta for the purposes, among others, of conducting legal research and recommending reforms in the law. Funding of the Institute's operations is provided by the Government of Alberta, the University of Alberta, and the Alberta Law Foundation.

The Institute's office is at 402 Law Centre, University of Alberta, Edmonton, Alberta, T6G 2H5. Its telephone number is (403) 432-5291.

The Members of the Institute's Board are presently J.W. Beames, Q.C. (Chairman), Professor R.G. Hammond (Director), M.B. Bielby, C.W. Dalton, H.J.L. Irwin, Professor J.C. Levy, Hon. Mr. Justice D.B. Mason, Dr. J.P. Meekison, B.L. Rawlins, A.C.L. Sims, and C.G. Watkins.

The Institute's legal staff consists of Professor R.G. Hammond (Director); R.H. Bowes; Professor C. Davies; G.C. Field, Q.C.; Professor T.W. Mapp; M.A. Shone; W.H. Hurlburt, Q.C. is a consultant to the Institute.

During the period when much of the work on this project was being undertaken,Mr. W.H. Hurlburt, Q.C. was Director of the Institute, and a Member of the Board. Mr. W.E. Wilson, Q.C. was Chairman of the Board during the Institute's deliberations on this subject, and the following former Members of the Board also participated in Board deliberations: W.F. Bowker, Q.C., George C. Field, Q.C.; Emile Gamache, Q.C.; Professor T.W. Mapp;

Professor R.S. Nozick and R.M. Paton.

The Federal/Provincial Working Party

The Working Party consisted of the following personnel:

(a) Canada

Mr. B. Couchman (Consumer & Corporate Affairs)
Mr. D.K. Piragoff (Justice)
Dr. Gaylen Duncan (Office of the Comptroller-General)

(b) Alberta

Mr. W.H. Hurlburt, Q.C. (Chairman)
Professor R.G. Hammond

(c) Ontario

Mr. L. Budzinsky

(d) Quebec

Mr. J. Gauvin
Mr. L. Leblanc

(e) Saskatchewan

Mr. S. Kujawa, Q.C.

Communications with the Working Party can be made through the office of General Counsel, Criminal Law Policy and Amendments, Department of Justice, Ottawa, Canada, K1A 0H8. (Telephone number (613) 992-1085).

Translation of Report

A French language translation of the Report is available through the federal Department of Justice.

EXECUTIVE SUMMARY

TRADE SECRETS

Purpose of Report

This Report is directed to two distinct sources.

First, in 1984 the Alberta Institute of Law Research and Reform published a consultative Report for Discussion with respect to reform of civil law relating to trade secrets. This Report, in its civil law aspects, is intended to serve as a final Report to the Attorney General of Alberta.

Second, in 1984 the Deputy Attorneys General Responsible for Criminal Justice struck a Federal/Provincial Working Party to advise them with respect to the ongoing legal problems associated with the misappropriation of confidential, commercially valuable information in Canada. The Working Party refined its general terms of reference into these two questions:

(a) Does the civil law of Canada provide an adequate cause of action and remedies for misappropriation of trade secrets?

(b) Should the Criminal Code of Canada be amended in some manner to criminally proscribe the improper acquisition, disclosure or use of trade secrets?

The accompanying Report outlines the application of the existing law to trade secrets, canvasses the policies which ought to underpin the law in contemporary Canadian circumstances, and concludes that there are deficiencies in the present law which require legislative solutions. Certain proposals for reform of both the criminal law and civil law are made, and those proposals have been translated into draft legislation annexed to the Report.

The Nature and Importance of Trade Secrets

The term "trade secret" refers to some identifiable business or technical information which is kept private for the purpose of economic gain. The creator of that information expends resources (and often considerable resources) of one kind or another to gain a competitive edge in product or services over a competitor. If the nature of the information were publicly known, the competitive advantage would be lost.

There are potentially four categories of trade secrets: specific product secrets (such as a chemical formula); technological secrets (that is, knowledge of some process or know-how that nobody else has yet developed); strategic business information (secret marketing information or customer lists); and specialised compilations of information that, in sum, are not publically known and have unique value on that account.

Trade secrets have always existed and had some importance in commerce. Their relative importance has however increased dramatically in the modern, high technology dominated economy. In many areas, the paradigmatic mode of protection of a new high technology development is now trade secret protection during the development phase, followed thereafter by contractural licences when the product or service is marketed. There are many businesses which consider intangible information of this kind to be their single most important asset.

Given this characteristic of advanced economies, and the huge sums of money required for much contemporary research and development, it is a fact of business life in North America that competitors now frequently seek to "short cut" the costs associated with independently developing information, either by outright industrial espionage, or by luring away key employees from a competitor. There has been a clear, and even dramatic rise in the number of cases of this kind in the last decade.

The Present Law

(a) Introduction

There is presently in Canada no distinct body of law relating to trade secrets as such. That is, if trade secrets are to be protected, it must be under doctrines or rules of general application. In effect, cases must be shoe-horned into existing doctrinal categories or Code offences. It is precisely because trade secrets have not been recognised as a subject worthy of attention in their own right that difficulties arise in Canadian law as it presently stands.

(b) Civil Law

Trade secrets cannot effectively be protected by patent law (which requires a public specification of the invention in return for a time limited monopoly) or copyright law (which, in general, does not protect an idea or concept, but merely the form of expression of that "information"). Trade secrets do however presently receive some protection under contract law or through general tort or equity causes of action. As to the former, Courts have long recognised the enforceability of express or implied terms of confidentiality, provided those terms are not themselves in restraint of trade. As to tort and equity, these fields encompass such things as the action for passing-off, fiduciary law, and the doctrines of breach of confidence and unjust enrichment.

There are five principal difficulties with the application of these judge made causes of action as they relate to trade secrets.

First, in general these causes of action assume the existence of some kind of prior relationship between the parties which the law can then classify in accordance with the established legal taxonomy. But in cases of industrial espionage there is routinely no such prior relationship. The "thief" had no relationship with the creator to which the civil law can attach any legal consequences. The result is that industrial espionage per se may not be actionable in Canada.

Second, even where there is some kind of relationship between the creator of the trade secret and the misappropriator, Courts have had great difficulty dealing with the situation of the third party who innocently acquires information in good faith from the "thief". This is the familiar problem in the law of which of two innocent parties must bear a loss, but in the absence of any distinct theory of trade secret law the Courts have never satisfactorily resolved this issue.

Third, even when a cause of action can be made out, there is great difficulty over the exact remedies that are available to a plaintiff.

Fourth, there are difficulties in the existing law as to some of the defences a defendant may mount. In particular, there has been much concern expressed by both Courts and commentators over the so-called "public interest" defence. This involves an assertion by a defendant that such person was justified in taking and publishing the secret in the name of some greater public good.

Fifth, some doubt has recently been expressed as to whether a right to the protection of a confidence is assignable. Thus, there is now some doubt as to how far successor interests may be created in a trade secret, which may well unduly inhibit the dissemination and application of this sort of information.

(c) Criminal Law

There are no specific provisions in the Canadian Criminal Code, as it presently stands, dealing with trade secrets. Many general offences will catch some of the behaviour associated with incidents of the kind this Report addresses. Thus, if somebody breaks into a factory and steals computer designs, several offences will have been committed - principally break and enter and theft of the blue-print itself (which may well have a value of more than $200). The real difficulty in the criminal law relates to the kind of case where what was "taken" or otherwise improperly obtained is only the intangible information itself.

The issue which has been raised in this connection in recent cases, and which has caused much debate, is whether information in general, or some more restricted categories of information, is, or should be property for the purpose of some or all of the "property" offences under the Code. For instance, the traditional English, American and Canadian legal answer to the question, "can information be stolen?" was, "no". A related issue of some importance is whether copyright infringement may also trigger the theft and/or fraud provisions of the Code. Again, it was until recently thought to be the position that there was no connection between the Code and the federal Copyright Act. There is now however some recent appellate authority for the proposition that confidential information can be the subject of a theft charge; that meddling without authority in the operation of a computer so as to destroy the information therein amounts to mischief; and that some kinds of dealing with information stored in electronic form and the subject of copyright can amount to fraud under the Code. Other courts have resisted this kind of extension of the reach of the Criminal Law. Some cases in this subject area are under appeal to the Supreme Court, which has yet to pronounce on these issues.

The net result is that some Canadian courts have been prepared to commodify information for the purpose of some provisions of the Code. Other Courts have resisted this approach. Hence both these extensions to the traditional Code offences and the exact parameters of any such extensions are in doubt. On one side these developments of the criminal law have been welcomed by industry and, to some extent, the Crown as giving what is said to be some much needed new teeth to the Code to deal with electronic crime. On the other side of the debate are some commentators (and some Judges) who consider these extensions of the criminal law inappropriate, insufficiently refined, and something that should have been left to Parliament.

There is a wide-spread consensus that the criminal law needed to be extended in some way to catch egregious cases of misappropriation of commercially valuable information. The real problem is how to achieve this objective in a balanced and workable way. One school of thought holds that the application of the existing "property" offences of the Code is appropriate and effective; another school of thought holds that for various reasons this approach is over-broad and inappropriate and that specific new offences should be created where necessary.

Policy: Should Trade Secrets be Protected at Law?

We have no doubt that the law should adequately protect trade secrets. The Report details our reasons. In summary, it is morally wrong that somebody should be enabled to take a free ride on the back of another person's endeavors, and there are important economic reasons to encourage Canadians to innovate in relation to new industrial and technological products, processes and ideas. We believe that Canadians would have no difficulty with the general proposition that industrial espionage goes beyond the bounds of legitimate competitive behaviour. At the same time the Report suggests that the protection granted must be carefully circumscribed in order to ensure that other important public interests (such as the free flow of information and employee mobility) are not unduly inhibited. In short, the Report recommends the careful balancing of a number of interests.

Law Reform in Other Jurisdictions

The Report details legislative reform in other jurisdictions which have dealt with this subject area. In the United Kingdom there have been proposals for a new statutory civil cause of action. In the United States the majority of States have enacted specific new criminal offences. A Uniform Trade Secret Act giving a new civil cause of action has also been enacted by about half the States.

Recommendations for Reform

(a) Introduction

The Report suggests that it is inappropriate to leave the development of this important subject area solely to the Judges. Serious issues of public policy are involved and should be considered by legislators. In any event, it seems apparent that existing legal doctrine has been stretched as far as it legitimately can be, and has not been able to resolve the problems which have arisen. Trade secrets require a new legal regime of their own. In this respect we are at one with those U.S. law reform bodies and legislators who have made a similar recommendation.

(b) Civil Law

The Report recommends the enactment by the common law provinces of a new Trade Secrets Protection Act. This legislation sets up a functional definition of a trade secret by identifying the requisite elements which must be present before a trade secret can be said to exist. Thus the information must be, or be potentially capable of being used, in a trade or business; it must not be generally known in that trade or business; it must have some economic value from not being known; and it must be subject to efforts that are reasonable under the circumstances to maintain its secrecy.

The Act creates two new statutory torts with respect to a trade secret as so defined. First, the improper acquisition of such a trade secret is made actionable. That is, espionage with respect to such a secret would be a tort. Second, the unconsented to disclosure or use of that trade secret would also be a tort.

If one or both of these torts are committed, the Court is given a wide range of remedies, including a power which does not presently exist in the law, to order one party to pay to the other party a royalty as a pre-condition for the continued use of the trade secret. The Court is given certain powers to adjust the position *vis* a *vis* innocent third parties. The available defences are clarified. A limited public interest defence is provided.

The Act takes the existing law, culls the best features from it, addresses the known difficulties in the law and attempts to resolve them.

The existing law of contract is not affected in any way. That is, if the parties wish to make their own deal as to the conditions under which a trade secret may be utilised or disclosed they are left free to do so.

Also, the remedies provided under the new Act are *in addition* to those common law or equity causes of action which already exist in Canadian law.

(c) Criminal Law

The Report recommends the creation of certain new offences in the Code. Where a person deliberately, and with full knowledge that a trade secret is involved, acquires, uses or discloses a trade secret with intent to deprive another person of control of that trade secret, or some economic advantage associated with it, an indictable offence would be committed. A second, and "lesser" offence would be created to take care of the situation where the offender "took" the information quite deliberately, but did not realise that what was being taken amounted, in law, to a trade secret. It would also be made an offence to fraudulently misappropriate a trade secret. The Report also recommends that the general theft provision of the Code be amended to make it clear that a trade secret is not property and hence not within that provision, and details the consequential amendments which would be needed throughout the Code to achieve that objective.

PART I - GENERAL

CHAPTER 1

INTRODUCTION

a. An Overview of this Report

1.1 The term "trade secret" is used by businessmen and lawyers to describe business or technical information which is kept private by its possessor for the purpose of economic gain. There is no limitation on the subject matter of a trade secret, though the prefix "trade" conveys the notion that the information must somehow be useful or potentially useful within a particular trade or industry. Common examples of trade secrets include recipes or formulas (e.g. the secret recipe for Coke), industrial know how (e.g. an ingenious method of placing liqueurs in chocolate) and strategic business information (e.g. customer lists). Whether information of this kind should be legally protected, and if so, to what extent, by what legal regimes, and in what precise forms, are becoming increasingly important questions in all technologically advanced societies, including Canada. The broad purpose of this Report is to furnish the various Canadian jurisdictions with a working response to those questions.

1.2 In Canada there is presently no single, coherent, body of law governing the circumstances under which trade secrets are legally protectable. Some protection is available through the application of existing general principles of civil and criminal liability, but the results are problematic.

1.3 As to the civil law, if someone wishes to bring civil proceedings for an alleged misappropriation of a trade secret, that person must rely upon the law of contract, equity, or tort.[1] Under the contract approach, the plaintiff asserts that there is an express or implied term of confidentiality in some contract between him and the defendant with respect to the particular information at issue. The general rules of the law of contract then apply to that claim. In a no contract situation, there are three equity causes of action which may be applicable. The defendant may have been in a fiduciary relationship with the plaintiff at the relevant time. Trafficking in valuable information learned in a fiduciary capacity is, in general, actionable. A second possibility in equity is the doctrine of breach of confidence. Canadian courts have recognised certain principles of good faith which must be observed in confidential relationships. A third possibility is more difficult. Canadian courts have recognized a doctrine of unjust enrichment. This doctrine enables a plaintiff, in some circumstances, to strip a defendant of gains made through improper activities. Whether, and if so how far, this doctrine extends to protection of trade secrets is not clear on the present authorities. As to the law of tort, it is conceivable that the established tort of passing off could eventually broaden into a generalized tort of unfair competition, thereby making actionable unjustified "free rider" behavior vis-a-vis a competitor. However, it is not presently clear whether Canadian Courts will eventually sanction such a doctrine, and if so, whether it will extend to misappropriation of trade secrets.

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[1] For a detailed discussion of these areas see Chapter 3, infra.

1.4 These civil causes of action share two critical characteristics. First, they rest on judge made law, which is necessarily unsystematic. Second, they pre-suppose a course of conduct or dealings between a plaintiff and a defendant prior to the misappropriation which a court can classify in accordance with the established legal taxonomy. In the result, a trade secret is not protected on the theory that it is the plaintiff's property; it receives protection because the kind of relationship required the defendant to act in a particular way.

1.5 There are four major problems with these civil causes of action, so far as they apply to protection of trade secrets.

(1) It has been assumed, somewhat uncritically, by the legal profession that affording legal protection to trade secrets is a "good thing". Whether this is so, and the relationship of trade secret law to patent and copyright law has, at least in the Anglo-Canadian legal tradition, received very little attention.

(2) Assuming that legal protection of trade secrets is, in general, a "good thing", the application of general doctrines of law or equity does not necessarily cover all the situations which may arise in practice. As only one instance, the plaintiff and the defendant may not have had any relationship prior to the misappropriation. Industrial espionage per se may not, therefore, be actionable in Canada.

(3) Assuming that a plaintiff can bring a trade secret case within one of the existing causes of action at law or

in equity, the remedies available to a plaintiff have been the subject of considerable legal debate and remain somewhat uncertain.

(4) Some of the critical incidents which attach to rights in trade secrets are uncertain. For instance, recently some doubt has been cast upon the proposition that a trade secret is assignable.

1.6 As to the criminal law, the Criminal Code[2] does not presently recognize any offences specifically directed to the misappropriation or misuse of a trade secret. If the trade secret takes the form of a tangible object (such as a valuable new computer chip), it is quite possible that offences such as break and enter or theft may be committed with respect to an improper purloining of that chip. Where the trade secret does not take the form of a tangible object, the legal position is much less clear and subject to a good deal of controversy at present, particularly with respect to the important new electronic technologies. There is (now) some Canadian authority for the proposition that "appropriating" or interfering with certain kinds of intangible information may be proscribed under the theft, fraud, or mischief provisions of the Code, but the precise application of these provisions and the appropriateness of the results has generated a good deal of debate.[3] The issue here is: Given an acknowledged problem, what is the best legal technique to deal with that problem?

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[2] R.S.C. 1970, c. C-34 as amended.

[3] See Chapter 4, infra.

1.7 In the result, there are two major problems with the criminal law in Canada, so far as it applies, or might apply, to the protection of trade secrets.

(1) Again, as with the civil law, there is a serious preliminary issue as to whether legal protection of trade secrets is a "good thing" and, in particular, whether it is appropriate that the criminal law should be invoked in addition to the civil law to protect an interest in a trade secret.

(2) Assuming that a case can be made out for invoking criminal law proscriptions with respect to this subject matter, what form should any such offences take? This question raises complex issues both of policy and legal technique. For instance, characterizing a trade secret as a property interest may bring it within a number of the existing provisions of the Code, and hence yield immediate legal protection, but that may have undesirable long term social and economic effects.

1.8 This Report advances two major propositions. First, that legal protection of trade secrets, is, in general terms, a desirable objective for the law to pursue. The Report argues that there are sound moral, economic, and practical reasons for this objective. Nevertheless such protection requires careful delineation so as to uphold the public interest in the free flow of information, mobility of labour, and (in certain kinds of cases) the public's "right to know" notwithstanding a claim to legal enforcement of secrecy. Second, that implementation of this policy objective should be effected by certain new civil and criminal measures.

1.9 As to civil law reform, it is proposed that if contracting parties wish to make their own arrangements as to the confidentiality of trade secrets, that privilege should remain open to them. Disputes arising under such agreements should continue to be governed by the general law of contract. In the absence of an agreement, however, a plaintiff should not be left to struggle to bring a case within the general doctrines of equity or tort. The law should provide certain new statutory causes of action and a range of remedies specifically designed for this subject area.

1.10 The Report recommends the creation of two new statutory torts. The first would make the acquisition of a trade secret by improper means actionable. That tort is squarely aimed at industrial espionage in relation to trade secrets. The second new tort would make the disclosure or use of a trade secret actionable where the consent of the person lawfully entitled to the benefit of that trade secret had not been procured. Certain defenses such as disclosure of unlawful activities in the public interest are suggested; a relatively eclectic range of remedies is provided; and a formula is suggested for the adjustment of the position as between a lawful holder of a trade secret and an innocent third party acquirer of that trade secret. A draft civil statute is provided. We recommend the enactment of this civil legislation by the common law provinces on a uniform basis.

1.11 As to criminal law reform the Report rejects the notion that a trade secret should be treated as a general "property" interest (which would, without more, have the effect of triggering a number of existing provisions in the Criminal Code). The particular nature of the interests at stake in this subject area requires, we think, the creation of quite specific offences to adequately balance the relevant interests.

1.12 The Report recommends the creation of certain new criminal offences, which would, subject to the conditions prescribed therein, proscribe the misappropriation of a trade secret. The Report also recommends alterations to the offence of fraud under the Code to bring certain activities related to trade secrets within that offence. Draft criminal legislation is provided. The Report recommends the enactment of these suggested offences and amendments in the Code by the federal Parliament.

b. The History of this Project

1.13 This Report has evolved out of both a general concern in law reform agencies in several countries with respect to this subject area in recent years and certain specific events in Canada which have lent a sense of immediacy to a review of the law in this country.

1.14 As to civil law reform outside Canada, there have been four formal initiatives in recent years. In the British Commonwealth, there has been a 1973 Report from the Torts and General Law Reform Committee of New Zealand.[4] In the United Kingdom, the Law Commission recently completed a ten year study entitled Breach of Confidence. The Scottish Law Commission has also issued a Report.[5] These three studies were an indirect sequel to the 1972 Report of the Younger Committee on Privacy in the United Kingdom.[6] That Committee had rejected proposals that there should be a new cause of action for the protection of privacy, but it suggested that some specific situations might deserve special protection. One of these situations was thought to relate to confidential information. The Younger Committee found the action for breach of confidence to be somewhat uncertain in character and scope and recommended that it be referred to the Law Commission for clarification and legislative restatement. In New Zealand, the Law Revision Committee, inspired in part by the Younger Committee Report, referred the subject area to the above-mentioned Committee.

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[4] Dept. of Justice, Wellington, New Zealand (1973).

[5] Law Com. No. 110. Sct. Law Comm. No. 90.

1.15 In the result, the New Zealand Committee thought that the existing body of judge made law offered adequate protection for trade secrets, and recommended that no legislative action was required. The Law Commission on the other hand, after an exhaustive study of the existing case law, recommended a legislative scheme which would involve the creation of a new statutory tort. This tort would occupy and extend the field hitherto occupied by the doctrine of breach of confidence, and is potentially applicable to any confidential information. The Law Commission's proposals have not, to date, been enacted. The Scottish Law Commission adopted a neutral position; it felt that it is a political decision as to whether legislation is required.

1.16 In the United States, the civil law protection of trade secrets was, until recently, also dependent upon judge made law. The provisions of the First Restatement of Torts, as issued by the American Law Institute in 1939,[7] were very influential and widely adopted by U.S. Courts.[8] However, when that Institute debated the scope of the Second Restatement of Torts, it concluded that trade secrets had become a subject of sufficient importance in its own right that it no longer belonged in that Restatement.[9] If the subject was to be included in a Restatement at all, it was thought that it should receive independent treatment in a separate Trade Practices Restatement. In the meantime, the National Conference of Commissioners on Uniform State Laws had accepted that there was a case for a clear, uniform, legislative solution[10] to trade secret protection, and in 1980, after some twelve years' work, a Uniform Trade Secrets Act was approved and recommended for enactment in all the States.[11] The Uniform Act has been adopted in Arkansas, California, Delaware, Idaho, Indiana, Kansas, Louisana, Minnesota, North Carolina and Washington. Non-uniform amendments exist in every adopting state except Kansas.[12]

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[6] Cmnd. 5012.

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[7] Restatement of the Law, Torts, Vol. IV, Chap. 36, sections 757-759.

[8] See Milgrim, Trade Secrets (1967). This work has been reproduced and updated as Volumes 12 and 12A in Business Organizations (Matthew Bender & Co., 1981).

[9] Restatement of the Law, Second, Torts (1979), Vol. 4, p. 1.

[10] See the Prefatory Comment to the Uniform Trade Secrets Act reproduced in (1980) 14 U.L.A., Civil Proc., p. 537.

[11] The Uniform Act was recommended at the Annual Conference of the National Conference of Commissioners on Uniform State Laws, at San Diego, California, August 3-10, 1979.

[12] This information is extracted in part from a draft, unpublished, article on the Uniform Act by one of the U.S. Uniformity Commissioners, Professor Richard Dole of the University of Houston College of Law. The U.L.A. lists the adopting jurisdictions for a given Uniform Act and updates that list by pocket part from time to time. The list in (1980) 14 U.L.A., Civil Proc., p. 537 is now incomplete with respect to the Uniform Trade Secrets Act. The most

1.17 As to criminal law reform outside Canada, the only common law jurisdictions which have attempted amendments to criminal law statutes to date are in the United States. In that country industry concern in the 1960's over the "theft" of valuable pharmaceutical formulas, their removal to jurisdictions outside the United states, and subsequent competition from foreign manufacturers of the pirated formulas, led eventually to most States enacting offences specifically aimed at misappropriation of trade secrets. Although these amendments arose out of a specific factual concern, the offences created were generic in character, and have subsequently been found useful in relation to more recent incidents involving the piracy of high technology secrets.

1.18 In Canada, there was, until recently, little impetus for a thorough consideration of this whole subject area. The federal Department of Consumer and Corporate Affairs has maintained a general interest in the subject area because of the close relationship between trade secrets, anticombines, trade regulation, patent, and copyright law. However, the federal government's jurisdiction with respect to a civil action for misappropriation of trade secrets is at best doubtful, and this has effectively precluded any distinct federal initiatives. Trade Secrets was, on one occasion, tentatively canvassed as a topic for the Uniform Law Conference of Canada, but lack of resources, and other work priorities have prevented it from receiving attention.

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[12](cont'd) significant adoption is in California, as a major high technology state. See Title 5, Part I, Division 4, California Civil Code (as added by Ch. 1724 of 1984).

1.19 Certain recent events in Canada have acted as a catalyst for more immediate law reform. An increasing number of so-called trade secret "thefts" in both Canada and the United States have begun to be documented and to receive publicity.[13] Also, computers and their associated data banks have become a target both for computer freaks wishing to demonstrate that "the machine can be beaten" and other persons seeking to intercept commercially valuable data.[14] Incidents such as the McLaughlin case in Alberta,[15] the Dalton School case in Montreal,[16] and Hitachi's attempted appropriation of IBM's computer-designs[17] received wide-spread media publicity. The Canadian Bar Association and various data processing organizations urged the federal government to review the law relating to interference with computers and misappropriation of valuable information.[18] The federal Department of Justice commenced a study of that topic. A private member's Bill proposing amendments to the Criminal Code was introduced into the House of Commons in 1982 by the Hon. Perrin Beatty, M.P.[19] This Bill was then referred to the House of Commons Committee on Justice and Legal Affairs for study.

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[13] See Roy E. Hofer, "Business Warfare Over Trade Secrets" (1983) 9 Litigation 8.

[14] See "Beware: Hackers at Play", Newsweek, September 5, 1983, p. 42.

[15] R. v. McLaughlin (1980) 18 C.R. (3d) 339 (S.C.C.).

[16] See Macleans, August 29, 1983, p. 48.

[17] See David B. Tinnin "How IBM Stung Hitachi", Fortune, March 7, 1983, p. 50.

[18] Hansard, Commons Debates, October 16, 1980, p. 3764.

[19] Bill C-667, An Act to amend the Criminal Code and Canada Evidence Act in respect of Computer Crime, 2nd Sess. 32nd Parl. 29 Elizabeth II (Order discharged, bill withrawn). For the Parliamentary discussion of that Bill see Hansard, Commons Debates, February 9, 1983, 22674.

1.20 By arrangement with the federal Department of Justice, a Background Paper on Improper Interference with Computers and Misappropriation of Commercial Information was prepared for the joint use of that Department and the Alberta Institute of Law Research and Reform by Institute counsel. The Paper recommended, inter alia, that civil law protection of trade secrets should receive some priority as a law reform project, as well as the criminal law matters which were then receiving attention. This Paper was made available to the Commons Committee.

1.21 When the Committee on Computer Crime reported in June of 1983 it accepted, as that paper had argued, that so called computer crime was only one aspect of a more generalized problem of misappropriation of commercially valuable information. The Committee also agreed that there are inherent difficulties in treating "information" as "property", and blindly applying such a formula. It stated:

> 29. Some witnesses argued that the definition of the term "property" should be extended to cover "information" or "computer-stored information" so that the existing provisions of the Criminal Code could apply. The Sub-committee questions this approach. In our view, it would be ill-advised to grant a proprietary interest in information per se, something which does not exist even in the civil law. For reasons of public policy, the exclusive ownership of information, which, of necessity, would flow from the concept of "property", is not favoured in our socio-legal system. Information is regarded as too valuable a public commodity to have its ownership vest exclusively in any particular individual.
>
> 30. Even with the statutory monopolies of copyright, patent, trademark and industrial designs, the creator, inventor or designor of the work is not given exclusive

> ownership rights in his creation, invention, or design. What is granted is more akin to an exploitation right, for a limited period of time. For example, the author of a book has, under the Copyright Act, the sole right to "produce or reproduce" his book. Others are not precluded from drawing from the book. They simply may not make copies of it or copy its content, as that is the exclusive right of the author and his assignees, for the author's life plus 50 years. Similar, though not parallel, considerations come to bear with the remaining statutory monopolies. For these reasons, we believe that extending the definition of "property" to include "information" may lead to more problems than it would resolve.

1.22 In the result, in addition to recommending increased protection for computer information through stronger sanctions in the Criminal Code, that Committee also recommended that: "Both levels of government [should] undertake a comprehensive joint study of trade secrecy law and adopt corrective measures." In October 1983, the federal government noted, in its Response to the Report of that Committee ". . . the [federal] Government proposes to discuss with the provinces the possibility of establishing a federal/provincial study to consider the type of protection which the law should recognize in these areas."[20] The federal government introduced into the House of Commons, on February 7, 1984, Bill C 19 (the proposed Criminal Law Reform Act, 1984), which included two provisions directed at unlawful interference with computer systems, and computer data.

1.23 In February 1984 the Alberta Institute of Law Research and Reform issued Report for Discussion No. 1 (Protection of Trade Secrets) in which that Institute undertook a comprehensive review of the existing civil law in Canada and brought forward draft civil legislation for public comment.

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[20] Response, page 6.

1.24 At the suggestion of the federal Department of Justice, the question of law reform in this subject area was then included on the agenda for the February 1984 meeting of the Deputy Attorneys General Responsible for Criminal Justice. That body resolved that a federal/provincial Working Party should be struck with respect to this whole subject area, with participants in that Working Party to be drawn from the jurisdictions of Canada, Alberta, Ontario, Saskatchewan and Quebec. The general intent in striking such a Working Party was to consolidate the various concerns and proposals which had been voiced in Canada, with a view to putting forward specific proposals for civil and criminal law reform which might then be considered by the various Ministries as a basis for legislation.

c. Constitution, Terms of Reference, and Methodology of the Federal/Provincial Working Party

(1) The Constitution of the Working Party

1.25 The participating jurisdictions (Canada, Alberta, Ontario, Quebec and Saskatchewan) nominated the personnel noted in the Preface.

Mr. W.H. Hurlburt, Q.C., of the Alberta Institute of Law Research and Reform, has acted as Chairman of the Working Party, and the federal Department of Justice has provided secretarial and other services. The Alberta Institute of Law Research and Reform has made its secretarial facilities available for the preparation of this Report.

(2) Terms of Reference

1.26 Given the context within which the Working Party was constituted, it concluded that it should endeavor to answer two specific questions:

(1) Does the civil law of Canada provide an adequate cause of action and remedies for misappropriation of trade secrets?

(2) Should the Criminal Code contain an offence such as "theft (or misappropriation) of a trade secret" or other alterations in the law to address that subject matter?

(3) Methodology

1.27 The Working Party held an initial organizational meeting at the federal Department of Justice in Ottawa on April 11, 1984 and thereafter met on several occasions over a number of working days at several venues across Canada provided by the participating jurisdictions. The Working Party also attended a consultative meeting on trade secret law with a number of industry and bar representatives in Ottawa on July 4, 1984. This consultation was sponsored by the Alberta Institute of Law Research and Reform. Prior to this Report being finalized it was circulated in draft form to a further invited group of industry, academic and bar representatives for comment, and a further consultation was held in Toronto on 13 February 1986. The names of those persons who attended are noted in Part Six.

d. Matters Not Covered by the Report

1.28 This Report is concerned only with reform of the law as it relates to that class of information which we think can properly be characterized as a trade secret. There are many other classes of information, sometimes of a confidential character, that may be the subject, in one way or another, of legal entitlements or be subject to legal regulation in one form or another. This Report has deliberately eschewed any attempt to become drawn into the ongoing debate over the future shape of information law in general, or other sub-sets of information law in particular. The Working Party has not the resources to undertake such a massive undertaking, and in any event we are firmly of the view that the extent to which any given class of information should enjoy legal protection depends upon the type of information being considered.

1.29 In particular the Report does not address the following problem areas.

First, publicly available information, such as information in publicly accessible data bases. This is an area which has caused some concern to both the creators of information of that kind and potential users of it. The many issues surrounding the creation, protection and use of information in this category are beyond our present resources and our terms of reference. We do think however that this subject area should be closely analysed and reported upon as a matter of some immediacy by an appropriately constituted body in Canada, and we would respectfully urge the Deputies, to the extent that they can, to put in train such an enquiry.

Second, there has been increasing sensitivity in recent years by governments to leaks of information--some of it of a character that would make it commercially valuable--from the government sector to the private sector. This report addresses the situation where such information would amount to a trade secret within that term as we define it, but does not otherwise deal with this general problem. Hence we make no recommendations on the general question of the theoretical basis (if any) on which the legal protection of government secrets rests, or the conditions (if any) under which somebody may publish or use such information. This is again an area which appears to have given rise to much recent difficulty around the Commonwealth jurisdictions, and is an area that could well stand a detailed review.

Third, the proposition that information in general is property, which has been advanced in some quarters in Canada recently, seems to us to be one of potentially far reaching consequences. That proposition ought, in our view, to be approached with caution both because of its marked departure from what had heretofore been regarded as the conventional legal approach (viz. that information is, in general not property) and because of its possible social and economic effects. Our general position is that different kinds of information may well require different kinds of protection (if they are to be protected at all) under particular circumstances. It is quite unlikely that the broad assertion that "all information is property" can stand. That is not to say that some kinds of information might not appropriately be given some measure of what an economist would term "proprietary" protection. The kind of protection we recommend for trade secrets has some proprietary characteristics, but is not a full blown property interest. We do not make any recommendations for other subject areas, such as video pictures or the like. Again, other interests would require separate study.

Fourth, as a corollary to the foregoing, it has become clear to us in the course of our study that not nearly enough research is being undertaken in Canada into the general area of the law and the various electronic technologies, and we would urge the Deputies to initiate, by whatever means may be open to them, a consideration of these other areas of concern. This is, of course, a familiar plea in many research reports, but in this instance the problems are of genuinely pressing practical importance.

e. The Position of Quebec

1.30 Quebec was a participating jurisdiction in this study, and provided delegates. Given that criminal law is a federal matter in Canada, Quebec has exactly the same stake and interest in the evolution of any new criminal law offences as the other Canadian jurisdictions, and its delegates participated accordingly in this study.

1.31 As to the civil law, the Working Party has not itself examined the question of civil law protection of trade secrets in Quebec.

f. Acknowledgements

1.32 This Report has involved an exercise in cooperative law reform. The Working Party has been greatly assisted by comments from many members of the Bar and academic lawyers in Canada and the United States, representatives of industry and other persons with an interest in this subject area. We were not able to remunerate the many people who assisted the Working Party in this way, but we are pleased to note and acknowledge their selfless contributions. The study would also not have been possible without the facilities generously provided by the participating jurisdictions, and the expenses borne by those jurisdictions in contributing members of the Working Party with the necessary technical expertise. A specific acknowledgement is due to Richard Austin of Stikeman Elliot, Barristers and Solicitors, Toronto, who, although not a formal member of the Working Party, prepared a Working Paper on criminal law reform in this area at the expense of the federal Department of Justice and thereafter contributed a great deal of his personal time to this exercise.

g. The Form of the Report

1.33 This Report is a self-contained document. It sweeps up the work undertaken by the various committees, departments and institutions which have considered this topic. In particular it replicates some material which first appeared in print in Report for Discussion No. 1 of the Alberta Institute of Law Research and Reform, and the Working Paper on Criminal Misappropriation of Trade Secrets prepared by Mr. Richard Austin for the federal Department of Justice. This has enabled the preparation of this Report to be completed much more quickly than would otherwise have been the case. We are grateful that the necessary permissions to enable this course to be followed were forthcoming, and for the co-operation of the Institute and that Department.

h. Legislative Action Recommended and Endorsement of Proposals

1.34 This is not an abstract Report. At the end of the day, it proposes specific changes in the law. It is however important to note the extent to which those changes are endorsed by the various participants in this study.

1.35 The Board of the Alberta Institute of Law Research and Reform has endorsed the proposed civil law reform and the draft Trade Secrets Protection Act, and recommends the enactment of that Act by the Province of Alberta.

1.36 The Institute's Board is also of the view that the enactment of the draft Trade Secrets Protection Act would be a useful and desireable piece of law reform in the other common law provinces, and to the extent that it can do so, urges the desireability of the enactment of this legislation upon those other Provinces.

1.37 The Board of the Institute has not considered or endorsed the proposals for reform of the criminal law in this Report. The Institute, as a law reform agency, is concerned primarily with civil law reform. Two members of the Institute's legal staff participated in the discussion of criminal law reform as members of the Federal/Provincial Working Party, but such contribution as they were able to make was in their individual, and not an institutional capacity.

1.38 The members of the Federal/Provincial Working Party were drawn from diverse sources and have endeavoured to reach a collective decision. Two caveats should be noted. First, those members were seconded because of their experience in this, or related subject areas. The contribution of the members of the Working Party was, however, on an individual basis, and should not be taken as necessarily representing the view of the Department or jurisdiction which seconded that person. Second, the Working Party, as a group, endorses the need for the creation of a distinct legal regime for the better protection of trade secrets. The Working Party is of the view that both civil law and criminal law reform is required. On the many matters of detail arising, in many instances there was unanimity. On some issues however a majority view had to be adopted. Where distinct alternative views were held by one or more members of the Working Party on some point, the text endeavours to reflect those alternative viewpoints.

1.39 As to adoption of the Working Party's recommendations, the Working Party is an advisory group to the Deputy Attorneys General Responsible for Criminal Justice, and it is for those persons to endorse them, or not, as they see appropriate.

CHAPTER 2

TRADE SECRETS AND BUSINESS PRACTICE

2.1 Any discussion of law reform presupposes an appreciation of the practical concerns out of which legal issues are said to arise. In this chapter we describe in broad terms how trade secret issues occur in everyday business practice. We do not attempt to evaluate in this chapter how the law does or should respond to those issues.

2.2 Industry spokespersons, both in consultations with the federal Department of Justice and when appearing before the Parliamentary Sub-Committee on Computer Crime, insisted that there was a need for better law to protect their "proprietary information" and "trade secrets".[21] Close examination of their evidence and cases in the law reports suggests that these broad phrases can be broken down into four possible categories, although the lines between them are not clear cut.

2.3 The first category involves very specific product secrets. Famous examples of this kind include the formula for Coke, the recipe for Kentucky Fried Chicken and the composition of the metals used in the highest quality orchestra cymbals. In such a case, the business _is_ the secret. The secret may or may not be patentable, but a patent is never applied for. The possessors of the secret hand it down, usually by an oral tradition, within a tightly controlled hierarchy of persons.

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[21] A number of briefs were filed for the purpose of the federal Dept. of Justice/Canadian Information Processing Society National Consultation on Computer Abuse held in Toronto on March 2 and 3, 1983. The evidence before the Parliamentary Sub-Committee on Computer Crime is summarised in the _Report_, of that Committee, at paras. 15-19.

Trade secrets of this kind have existed since at least the time of the Greek Empire, and will likely always exist, regardless of the state of the law.

2.4 Such secrets amount to a monopoly of a peculiar kind. No other business has the secret, but since the product is freely available on the market, competitors can imitate it or even replicate it exactly if their own research facilities can break down (or "reverse engineer") the composition of the product. If a secret of this type was acquired by a competititor by nefarious means, the loss to the originator of the secret could conceivably amount to a total diversion of business. However consumers might get the same product (albeit from a different company) at a cheaper price.

2.5 The second category involves technological secrets. Every business enterprise uses a combination of labour, energy and raw materials to produce some product or service. Faced with soaring costs for all three items, contemporary businesses rely on technology to reduce costs and increase productivity. The ability of an enterprise to do well or even survive in today's highly competitive climate is directly related to its success in acquiring, protecting and exploiting some aspect of modern technology. Knowledge of these processes that increase efficiency is usually referred to as technological "know how". If this know how which produces greater efficiency becomes available to other industry members, the enterprise is not necessarily lost, but its market competitiveness will be reduced. From a consumer's point of view more firms may become more efficient, but the originator of the innovation may be less likely to invest in further new technological processes.

2.6 A third category of trade secrets relates to secret strategic business information. Businesses spend a good deal of money preparing internal marketing studies, customer lists, industry forecasts and the like. This sort of insider information about a particular trade or industry is important because it forms the raw data on which other decisions, such as financing, or marketing may be based. Loss of the information may not be as catastrophic to a business as a loss of a trade secret in categories one or two, but it can alert a competitor to the business strategy likely to be adopted in a particular market sector or save valuable start up time or cash expenditures in assembling the information.

2.7 The fourth category is more recent and relates to information as a product in and of itself. The greatest attribute of the computer is its ability to store and collate information. A new industry which utilizes this potential in the form of packaged information services has come into being. Individual bits of information, useless in themselves, are collated into usable packages and sold like any other commodity. The value of the information lies in the collation, not the individual items, which can be collected off any public library shelf. "Secrecy" in such cases is something of a misnomer. It applies either because no one else has the equipment or know how to collate the relevant information or has not invested the time and resources required to do so. This is a difficult category--the information is "public" information, but it is privately collated. In this category the problem could be conceived to be the protection of a data base, rather than the protection of trade secrets.

2.8 If a competitor or would be competitor wants to obtain information from categories one to three, there are two ways of going about it which are routinely employed. The competitor may seek to lure an employee of the enterprise which has the information into his own employ. Alternatively, the competitor may have to resort to some form of espionage. That is, an attempt is made to appropriate the information without detection.

2.9 Both these practices have a long history in commerce. For instance, medieval guilds attempted to keep trade secrets "in the family", and Joshua Wedgwood once attempted to persuade the English Parliament to allow the opening of artisans' mail to prevent workers from taking employment on the Continent and carrying with them technical insider knowledge of the pottery industry. There are documented instances of industrial espionage extending back at least as far as the Roman Empire.[22] The incidence of both these methods has increased in recent years, for several reasons.

2.10 First, technology has changed the nature of modern business in a number of respects. Business has become a race against time. Technology is volatile and short lived. The increasing pace of technological change means that many perfectly good ideas and inventions may be obsolete before they can be patented and brought to the market place. This problem is complicated by the fact that different parts of a product may have different development rates. Computers typify this problem. Hardware is developed and marketed within several months. On the other hand, until artificial intelligence becomes available, computer software has to be developed at great expense and over a longer period of time in the form of several hundred thousand lines of hand constructed code. Software is thus an extremely expensive, labor intensive form of intellectual property which requires fanatical protection while the cost of its development is recouped through sales. Technology has also promoted keener competition. At one time a business enterprise got a competitive advantage from its proximity to the railroad or raw materials. Today the business advantage lies in technology. The business pressures to know what competitors are doing are therefore intense.

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[22] For a good overview of the historical development of trade secret law, see Daniel F. Fetterly, "Historical Perspectives on Criminal Laws Relating to the Theft of Trade Secrets" (1970) 25 Bus. Lawyer 1535.

2.11 Second, employee mobility is now greater than at any time in history. Relative affluence and the acquisition of more generally applicable skills have made it much easier for employees to move from place to place and job to job. As a result valuable information is often placed in less controllable or loyal hands. It has also become easier for an employee to leave and compete directly with an employer. Many small businesses are created today to trade on specific new technological advances that larger companies, with slow, cumbersome organizations cannot exploit. Extensive capital is less of a problem than it was a decade ago. Simpler, more effective communications facilitate market penetration by even the smallest companies. It is thus more attractive for employees to strike out on their own. When they do so, difficult issues arise as to what information can be called "theirs" and what should be respected as more properly belonging to their former employers.

2.12 Third, technology has made espionage per se much simpler. There is now an array of sophisticated equipment, much of it derived from military developments, which makes espionage within even well run enterprises a real threat.

2.13 Industry spokespersons argue that trade secret losses are serious and warrant urgent legislative attention.[23] Is there objective evidence to substantiate these claims? There is no definitive statistical or empirical evidence of the incidence of such losses in Canada or the United States.[24] The intellectual property bar reports that it is handling more cases of this kind than previously, and in the last several years there have been more cases involving trade secret issues appearing in the law reports. There are empirical studies which suggest that losses to businesses and governments from computer related crime are significant.[25] It is, however, quite unlikely that a scientifically accurate picture of trade secret losses could ever be assembled. Businesses and governments rarely disclose losses of this kind. Such a revelation may suggest lax security on their own part. Litigation necessarily involves revealing at least some details of the secret in open court and signals the value of the information in the market place. The available evidence does, however, corroborate in a general way the claims of industry spokespersons.

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[23] Note 21, supra.

[24] Perhaps the best empirical study of trade secret protection and its relationship with patents was undertaken as a Harbridge House study in the United States in 1968. See Richard Miller, Legal Aspects of Technology Utilisation (1974).

[25] D. Parker, S. Nycum and S. Oura, Computer Abuse (S.R.I. 1973); D. Parker, Computer Abuse Assessment (S.R.I. Rep. 1975); D. Parker, Computer Abuse Perpetrators and Vulnerabilities of Computer Systems (S.R.I. Rep. 1975); but c/f General Accounting Office, Computer Related Crimes in Federal Programs (1976); J. Taber, "A Survey of Computer Crime Studies" (1980) 2 Computer L.J. 275; Robinson, "Law outdistanced by Technology", The Financial Post, 30 May 1981, p. 24, col. 3; Report on Computer Crime (Task Force on Computer Crime); A.B.A., 1984).

2.14 We accept, as a general proposition, that there is today a real problem both in Canada and the United States, which in its widest sense can be described as the improper acquisition, disclosure or use for commercial gain by one party of valuable information which has been generated by some other party. The evidence available to us appears to indicate that the incidence of such cases is increasing and is causing legitimate concern to commercial interests. The total problem is somewhat wider than that of trade secrets and may require attention at several points in the law. Trade secrets are, however, a significant and manageable sub-set of this overall problem for law reform purposes.

2.15 We would however urge that there is a clear and compelling need for the collection of statistics as to information related crimes in Canada. It may be that this is a matter which could usefully be included in the mandate of the federal Centre for Justice Statistics.

CHAPTER 3

THE PRESENT CIVIL LAW RELATING TO PROTECTION OF TRADE SECRETS

a. Introduction

3.1 Canadian civil law does not presently mark off trade secrets as a subject area for separate legal attention. If a trade secret in any of the categories suggested in Chapter two is to receive legal recognition and protection, it must, as the law stands, be under doctrines of general application. The most important of these, as has already been noted, are derived from the law of contract and from equity. There are also certain other areas of the law which may incidentally give rise to some protection for trade secrets. Further, the law relating to trade secrets does not exist in a vacuum. It forms part of a larger body of law, which is usually referred to as the intellectual and industrial property laws of Canada. This body of law includes such things as patent, copyright and trade mark law, and related trade regulation statutes.

3.2 In this chapter we describe in greater detail the various ways in which trade secrets might be protected under the existing law. We also describe the relationship between legal protection of trade secrets and other aspects of the law of intellectual and industrial property, and the operational effectiveness of that body of law. In so doing we reserve until later chapters the important questions of whether the law should, in general, give protection to trade secrets, and whether the law should be reformed in any way.

b. Legislation

(1) Patents

3.3 Modern patent law evolved from the "Letters Patent" which were granted by the Tudor monarchs to lure skilled craftsmen to England. Those patents were guarantees of trade monopolies, and were granted on an individual and selective basis. The quid pro quo for the Crown was revenue from these patents, and they were a means of rewarding loyal service. By the early seventeenth century Judges had begun to emphasize that patents should only issue for useful inventions which would benefit society. This judicial philosophy subsequently formed the basis of the famous Statute of Monopolies of 1623, which prohibited monopolies in general, but preserved (inter alia), patents of inventions.[26]

3.4 In Canada patents fall exclusively within federal jurisdiction.[27] Under the federal Patent Act,[28] , a patent is a form of limited monopoly granted by the state to the inventor of "any new and useful art, process, machine, manufacture or composition of matter, or any new and useful improvement [in any of those things]".[29] Five criteria must be satisfied before a patent can be issued. The invention must be composed of proper subject matter; it must be novel; it must be useful; there must be an element of inventiveness, and the invention must be properly specified in the documentation, so that other persons will be enabled to manufacture the invention when the patent expires and know what the patent covers. The exact meaning of each of these criteria has attracted considerable case law refinement.

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[26] For the historical background to patents, see Fox, Monopolies & Patents (1947), Part One; Cornish, Intellectual Property: Patents, Copyright, Trade-Marks & Allied Rights (1981), pp. 79-84.

[27] Constitution Act 1867, s. 91 (head 22).

[28] R.S.C. 1970, Chap. P-4.

[29] Id., s. 2 (definition of "invention").

3.5 The inventor who does meet these criteria obtains the right to exclude all others from making, using or selling the invention within Canada for a period of 17 years from the date on which it is issued. The inventor may also receive the benefit of certain international treaties with respect to patents.

3.6 The rationalization for contemporary patent statutes has caused much debate. One argument involves an explicitly Lockean view: the inventor has a natural right to the "fruits of his labour". A more widely accepted argument is that a patent is a privilege granted by the state to encourage new inventions and investment.[30]

3.7 At first blush, patents would seem to give a principled measure of protection to trade secrets. In practice, for several reasons, this is not so.

3.8 First, a trade secret may not be, in terms, within the Patent Act. For instance, a cardinal principle of patent law is that ideas and scientific principles as such are not patentable.[31] This principle is clearly defensible in abstract terms. An Einstein should not be able to get a state supported monopoly on the theory of relativity. But this general principle has given rise to serious practical problems. Computer programmes, for instance, are based upon alogrithms - abstract mathematical formulas - and this factor is one of the issues that have lead to serious debate over the patentability of these programmes.[32] On the other hand, a practical embodiment making use of a scientific principle is patentable. For example, if a mining company developed a system to use sound waves to differentiate between different metals in the ground, that would be patentable. The knowledge that sound waves could be used for such a purpose would not be patentable.

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[30] See H.G Fox, Canadian Patent Law and Practice (4th ed., 1969), pp. 5-6. See also Beier, "The Significance of the Patent System for Technical, Economic and Social Progress" (1980) 11 IIC 563.

[31] This principle has statutory force in Canada. See the Patent

3.9 Second, even where the Patent Office grants a patent it can be challenged at a later point of time on the basis that the necessary criteria have not in fact or law been met. The attrition rate of patents in litigation in recent years has been high in North America. In some U.S. federal circuits, it has been calculated that 80% of patents challenged are held invalid in subsequent litigation. In Canada 69% of the patents challenged in the Supreme Court of Canada between 1928 and 1969 were held invalid. In all litigation in the same period, nearly 40% were held invalid.[33] The Courts insist on high standards for "inventiveness" and the interdependent nature of much modern

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[31] (cont'd) Act, note 28, supra, s. 28(3) (No patent shall issue for "any mere scientific principle or abstract theorem.")

[32] See generally, Tapper, Computer Law (3rd ed., 1983), pp. 1-13; Scott, Computer Law (1984), Chap. 4.

[33] Duncan, Canadian Business and Economic Implications of Protecting Computer Programs (unpublished Ph.D. thesis, University of Texas at Austin, 1975), 227.

research means that it is increasingly difficult to demonstrate "novelty" in the technical meaning of that term.

3.10 Third, patent applications are expensive (the minimum legal costs today would be $1500 on even a simple patent) and may take several years to process, particularly if there is a challenge to the grant. The time frame of most contemporary technological developments is such that a useful development may be obsolete before it can be patented.

3.11 Fourth, Canadian patent law does not necessarily protect an invention whilst it is being developed. There are two methods by which priority as between rival claims to a patent might be determined. One is the first to file system which is used everywhere in the world except in Canada, the United States and the Philippines. In those three countries, the rule is first to invent.[34] Even this rule however can leave a hiatus when the development is still in the laboratory stage, and has not yet resulted in an "invention" within the technical meaning of that term. For that reason, many companies depend upon trade secret protection up to the time an invention in the patent sense comes into being.

3.12 Fifth, the term of a patent is limited to 17 years.[35] That term involves a conscious public policy choice that, in general, an inventor will reap a sufficient, but no more than sufficient return from his monopoly in that period. Thus, in the case of the golf ball typewriter (IBM patent) and the Beta video format (Sony patent) the inventor must recoup the developmental outlay in that time, and make a profit. There is much debate about this general time period, and whether it allows too much or too little. Some companies consciously bypass the statutory measure if the developmental costs are too great or if they anticipate being able to successfully protect the trade secret by other means and thus to obtain a longer period of return. Still other companies use trade secret protection in tandem with patent protection. Trade secret protection is used until a patent has been obtained and the product released onto the market.

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[34] For Canada, see s. 28(1)(a) Patent Act; Fox, note 30, supra, p. 224.

[35] Patent Act, s. 48.

(2) Copyright

3.13 Copyright law, like patents, has undergone a change of rationales in the course of its history.[36] Originally copyright was a means of protecting the printing trade. The Crown granted the right of copying, thereby generating revenue for itself and exercising a form of censorship. In time, copyright became a means of protecting authors' rather than publishers' interests. There is an ongoing debate as to whether this protection rests on a natural right in the author or is merely a statutory privilege. Copyright law in Canada is today purely statutory.[37]

3.14 Copyright falls exclusively within federal jurisdiction in Canada.[38] The essential concepts which underpin the Copyright Act are these. Copyright extends to every

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[36] See Cornish, supra note 26, pp. 293-315; Fox, The Canadian Law of Copyright & Industrial Design (1967), pp. 1-41.

[37] Fox, note 36, supra, p. 2.

[38] Constitution Act 1867, s. 91 (head 23).

"original literary, dramatic, musical and artistic work".[39] However, only the form of expression of the work is protected. The ideas, concept or subject matter are not.[40] However good or valuable an idea or plan is, it becomes public property once it is publicly disclosed. "Originality" for the purposes of the Copyright Act does not refer to the expression of original thought, but to the manner in which it is expressed. Copyright, under Canadian law, is not contingent upon registration of the work (as in some countries) but attaches automatically upon creation of the work. The protected work must be in permanent or fixed form. If a work attracts copyright, the owner of the copyright is entitled to the sole right of reproduction for a period based on the life of the author plus fifty years. A patent is an absolute monopoly. Copyright is not. Copyright does not prohibit independent creation of the same work.

3.15 In practice, a number of difficulties arise with copyright law from the point of view of protection of trade secrets. First, and most obviously, since the idea itself is not protected, legal remedies for copying the material in which the idea appeared are second best or even illusory. There is both civil and criminal liability under the Copyright Act for copying,[41] but the measure of damages relates to the loss occasioned by the copying (as opposed to the loss of idea) and the criminal sanctions are nominal.

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[39] R.S.C. 1970, Chap. C-30, s. 4(1).

[40] See Fox, note 36, supra, p. 43. But see Christie, "Copyright Protection for Ideas: An Appraisal of the Traditional View" (1984) 10 Monash Univ. L.R. 175; Leventhal, "Derivative Works and Copyright Infringement: A Case for Copyrighting Ideas" (1985) 1 IPJ 271; Plix Products Ltd. v. Winstone (High Court of N.Z., 13 August 1984), noted by Lahore in [1985] 7 EIPR 83).

[41] See Copyright Act, note 39, supra, ss. 20-26.

3.16 Second, the Copyright Act is now over sixty years old. It was drafted at a time when most modern technology did not exist. For instance, bringing developments such as computer programmes within the present Act has involved a great deal of controversy, although it now appears that Canadian Courts are moving in the direction of endorsing copyright protection for such programmes.[42]

3.17 Reform of the Copyright Act has proven to be a slow and contentious exercise. Work on the evolution of a modernized Act began more than a decade ago in Canada.[43] Reform of the law in this area is difficult partly because the subject matter is a moving target and partly because international conventions come into play, as well as domestic considerations. For instance,

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[42] There is no doubt that human readable computer software ("source code") is protectable under the Act. The controversy in Canada (as in other parts of the world) has concerned machine readable software ("object code") and programs stored on silicon chips. As to machine readable code see IBM v. Ordinateurs Spirales Inc. (1984), 2 C.P.R. 56 (Fed. T.D.); Wiggs, "Canadian Copyright Protection for Computer Software--Recent Developments" (1985) 1 I.P.J. 137; Morgan, Note (1985) 63 Can. Bar. Rev. 414. As to silicon chips see Apple Computer Inc. and Apple Canada Inc. v. Mackintosh Computers Ltd. et. al. (T-1232-84) and Apple Computer Inc. and Apple Computer Inc. v. 115778 Canada Inc. et. al. (T-1235-84) (April 29, 1986, F.C.T.D., as yet unreported, but noted in Ontario Lawyers Weekly for Friday, May 16, 1986, p. 1 (Dan Gottlieb)). These latest decisions of Madame Justice Reed appear to hold that computer programmes in all forms are copyrightable.

[43] For background studies see Report on Intellectual & Industrial Property (1971, Economic Council of Canada); Keyes & Brunet, Copyright in Canada: Proposals for a Revision of the Law (1977); and the recent Copyright Revision Studies undertaken by Consumer & Corporate Affairs.

Canada is a signatory to both the Berne Convention[44] and the Universal Copyright Convention[45] and is required thereunder to treat foreign works in the same manner as domestic works.

3.18 In 1984 the Federal Government released a White Paper on copyright reform.[46] The White Paper was then referred to a Parliamentary Committee for public submissions and comments, and that Committee held extensive hearings in Canada in 1985. The Committee has now reported, and the federal administration issued its formal Response to that Report in February 1986.[47] It seems likely that a revised Copyright Act will be introduced in due course. However, given the complex nature of the subject, and the debate it has engendered, it may well be some time before a revised Act is actually enacted, and at this time it is impossible to predict the final shape of reformed legislation. However, it seems clear from the White Paper and the Report that the present thrust of reform is on "revision" and accommodation of quite specific new technologies rather than fundamental root and branch reform.[48] There is nothing in the White Paper, the

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[44] The Convention is reproduced as the Second Schedule to the Copyright Act, note 39, supra.

[45] Reproduced in Fox, note 36, supra, p. 776.

[46] From Gutenberg to Telidon: A White Paper on Copyright. See the review by Morgan, in [1984] 6 EIPR 235.

[47] The official nomenclature of the Committee was: The Sub-Committee of the Standing Committee on Communications and Culture on the Revision of Copyright. The Report is entitled A Charter of Rights for Creators (Ministry of Supply and Services, October 1985). The Response indicates that the government favours protecting computer programmes along the same lines as other copyright subject matter.

[48] It may be that the government decision in Canada reflects a conscious policy decision not to extend the protection of ideas.

Report itself, or in submissions made to the Committee to date to suggest that Canadian copyright law might eventually be treated as a more generic kind of information law.[49]

(3) Freedom of Information legislation

3.19 Business is regulated in various ways by one or both levels of governments. In most industries it is literally impossible to operate without formal permissions of one kind or another. As only several examples of the many hundreds that arise in business in Canada today, an enterprise may need to discuss details of its financial operations with the revenue authorities to establish whether various tax concessions would apply to its operations, it may have to obtain permission to discharge water into a particular river, and it may have to have land rezoned and other permissions to permit a plant using new technology to be built. Each such incident may involve making a fairly detailed disclosure to a government, or a government agency, of what that business enterprises wants to do, and how it proposes to go about doing so. Inevitably, much of this information is regarded as confidential or in the nature of a trade secret by the disclosing enterprise.

3.20 The general model for freedom of information statutes which evolved in the 1970's involved three elements.[50] First, all information in government hands was declared to be, in effect, a public resource. Second, various exceptions were then created to that general principle. Third, provision was made as to who could apply to get information from the government. The problem of trade secrets was recognized in a general kind of way by the drafters of this kind of legislation, and the statutes provided that the government was not to reveal to third parties trade secrets which had come into its possession.[51]

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[49] The U.K. government at one point canvassed more fundamental reform. See Intellectual Property Rights and Innovation (1983) (Cmnd. 9117), noted by Brett [1984] 6 EIPR 111. But see also, Intellectual Property and Innovation (Cmnd. 9712, 1986) which recommends fairly traditional protection for computer programmes.

[50] See generally, McCamus (ed.), Freedom of Information, Canadian Perspectives (1981).

3.21 In practice, the trade secrets problem has become the major freedom of information issue. For instance, in the United States nearly eighty per cent of applications under the federal statute involve one competitor attempting to find out trade secrets of a competitor. These applications raise highly contentious issues. Is the original depositor of the information to be entitled to determine what is a trade secret? If the depositor is not to be the judge of trade secrecy, is the government obliged to decide that issue, and on what criteria? What is the position to be if the government inadvertently discloses a trade secret? What if a third party wants to challenge the bureaucracies holding that certain information does amount to a trade secret? What if the government needs further information to decide whether something is or is not a trade secret? Can the government compel further disclosure? What if the original depositor wants to sue to prevent disclosure? What kind of action might that person have?[52] It seems quite likely that similar issues will arise under Canadian legislation in this area.[53]

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[51] See e.g. Access to Information Act, S.C. 1980-81-82-83, c. 111.

[52] See, generally, as to these issues, Note, "Developments Under the Freedom of Information Act 1978" (1979) Duke L.J. 327; and the collection of articles under the title "Your Business, Your Trade Secrets and Your Government" in (1982)

3.22 A review of the general model for freedom of information statutes and its practical application is probably warranted in light of this kind of experience. About all that can usefully be said as to the present law is that in those jurisdictions which have freedom of information legislation, trade secrets deposited with government are, in principle, supposed to be protected but in practice they may not be. In those jurisdictions which do not have such a statute, the status of trade secrets required to be supplied to government is very doubtful.

(4) Privacy Legislation

3.23 At common law there is no cause of action for invasion of privacy. Some Canadian jurisdictions have enacted statutes which do give a civil cause of action for invasions of privacy.[54] There have been only a handful of cases under these statutes, and there is no reported instance in which a claim has been made involving a trade secret. The statutes appear to be designed to protect personal privacy. Although there may

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[52](cont'd) 34 Administrative L. Rev. at pp. 107-371.

[53] It is significant that the first reported decision under the federal Act involved precisely some of these kinds of issues. See Maislin Industries Ltd. v. Minister of Industry, Trade and Commerce (1985) 8 Admin. L. R. 305; 10 D.L.R. (4th) 417 (F.C.T.D.); noted by Rankin, (1985) 8 Admin. L.R. 314. See also Blanchard, "Federal Access to Information and Privacy Legislation (Are Your Secrets Safe?) (1985) 1 Can. Intellectual Prop. Rev. 366.

[54] S.B.C. 1968 c. 39; SS. 1973-74 c. 80; S.M. 1970 c. 74., S. Nfld. 1981 c. 6. Alberta does not have a privacy statute of this kind.

conceivably be some circumstances in which personal privacy might be invaded in the course of the misappropriation of a trade secret, the protection provided by these statutes is, at best, peripheral.[55]

c. Common Law Protection of Trade Secrets

(1) Tort

3.24 Tort law is concerned with civil obligations which are imposed by law. Such obligations do not depend upon agreement between the parties. Anglo-Canadian law has not adopted prima facie tort theory, which holds that any harm which one person inflicts on another person is actionable in the absence of lawful justification. Instead, Canadian law has followed English theory in recognising discrete "nominate" torts, each of which is directed to the upholding of a particular interest in society. There is presently no tort of misappropriation of a trade secret although some torts, such as unlawfully inducing a breach of contract (as by enticing away a key employee), may give a peripheral measure of protection to trade secret "owners".

3.25 One development in tort law which may come to be significant for intellectual and industrial property law involves the nominate tort of passing off. It is actionable to use a name or get up in a way which is calculated to cause confusion with the goods of a particular trader. The classical authorities[56] suggest the tort protects a proprietary right in the reputation or goodwill of a product of which the name, mark or get up is the badge or vehicle. The objective is to protect the public from being confused as to whose product is whose. There is an alternative argument: passing off could be considered as a subspecies of a more generalized category of tortious behaviour called "unfair competition". This latter argument has commended itself to several Commonwealth judges in recent years.[57] It may be therefore that the tort is undergoing an evolutionary change.

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[55] See generally, D. Vaver "What's Mine is Not Yours: Commercial Appropriation of Personality under the British Columbia, Manitoba and Saskatchewan Privacy Acts" (1981) 15 U.B.C. Law Rev. 241.

[56] See e.g. Spalding & Brothers v. Gamage Ltd. (1915) 32 R.P.C. 273, 284 (Lord Parker); Reddaway v. Banham [1896] A.C. 199.

3.26 It is impossible to predict whether the unfair competition argument will prevail in British Commonwealth jurisdictions.[58] There are two difficulties with the general concept. First, unfair competition, as a concept, rests upon uncertain premises. One is that substandard business morality can somehow be identified and attacked. Another premise is economic: if one person is entitled to take advantage of the work or labour of another without paying appropriate compensation for it, then "good" economic behaviour (industry and creativity) will be discouraged. Second, the concept has not had much impact even in those jurisdictions which have adopted it. Some continental codes have unfair competition provisions but they do not appear to be used very often in practice. In the United States the Supreme Court in 1918 endorsed the concept in the famous case of *International News Service* v. *Associated Press*.[59] However, after the decision in *Erie* v. *Tompkins*[60] (holding that there is no federal common law in the United States) the doctrine became a matter for state common law. Its subsequent history is that of a legal argument of last resort.[61] In many states the existence of specific trade secret protection statutes has now made reliance on this tort unncessary.

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[57] See e.g. Bollinger v. Costa Brava (1960-61) R.P.C. 16; Colgate Palmolive Ltd. v. Pattron (1978) R.P.C. 635.

[58] In England, the House of Lords appear to have reaffirmed the classical position in Erven Warnik v. Townend (1980) R.P.C. 31; and the High Court of Australia recently explicitly rejected such a tort in Moorgate Tobacco v. Philip Morris (1984) 59 ALJR 77. For recent journal articles see Ricketson, "Reaping Without Sowing: Unfair Competition and Intellectual Property Rights in Anglo-Australian Law" (1984) U.N.S.W.L.J. 1 and Adams, "Is There a Tort of Unfair Competition?" (1985) JBL 26. See also Consumers Distributing Co. Ltd. v. Seiko Time Canada Ltd. [1984] 1 S.C.R. 583 (S.C.C.)

3.27 In Canada an attempt was made in a circuitous manner to introduce a cause of action for unfair competition. The federal Trademark Act[62] contains a provision in s. 7(e) proscribing "the [doing of] any act or [the adoption of] any other business practice contrary to honest industrial or commercial usage in Canada". This statutory tort lay dormant for many years and was not relied upon in practice. This may have been because there was always doubt about the constitutional validity of the provision, or perhaps the Bar overlooked the provision. In any event, in *MacDonald* v. *Vapour Canada Ltd.* [63] the sub-section was finally held to be unconstitutional by the

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[59] (1918) 248 U.S. 215.

[60] (1938) 304 U.S. 64.

[61] See generally Kitch, *Legal Regulation of the Competitive Process* (1972), pp. 26-31. And some leading U.S. judges have been more than a little critical of the doctrine. See e.g. Learned Hand J in *Cheney Bros.* v. *Doris Silk Corp.*, 35 F. 2d 279 (2nd Cir. 1929): "[Are we] to suppose that the court meant to create a sort of common law patent or copyright for reasons of justice[?]" His Honour attempted to confine *INS* to its own facts.

[62] R.S.C. 1970, Chap. T-10.

[63] [1977] 2 S.C.R. 134.

Supreme Court of Canada. Some federal government advisors have argued that provided this provision was recast in the form of a regulatory statute, the federal government might be able to reenact it, relying on the trade and commerce clause of the B.N.A. Act. The federal government has not given any indication that, even if such an argument were accepted, it intends to resurrect s. 7(e) in some form. The problem is one which could, if it were thought desirable that there be such a cause of action in Canada, be addressed by the evolution and adoption of a Uniform Act by the provinces.

3.28 If a generalized tort of unfair competition were to be recognized in Canada, it would be of direct relevance to the protection of trade secrets. On the present state of the authorities it seems unlikely that the concept will evolve as a judicial development of the law without a good deal more debate over a period of years.

(2) Contract

3.29 The law of contract may be employed to protect trade secrets in several ways. First, contract law recognizes in a general way that an employer has a legitimate interest in protecting information evolved for the purpose of that employer's business. Thus, even in the absence of an express covenant, courts routinely imply into the employer/employee relationship an obligation of good faith. However, such covenants, whether express or implied, are not treated as being absolute. They are made subject to certain general principles of the law of contract relating to restraint of trade. The covenant will be enforced only if it is reasonable both in the public interest, and as between the employer and the employee.[64] Under these principles the courts are, in effect, attempting to draw a balance between the employer's economic interests on the one hand, and the employees (and society's) interest in mobility of labour on the other hand. This balance may be hard to achieve in particular cases, but the principles of law are very well established and not in doubt. It is very common in high technology firms for quite specific, and elaborate, provisions regarding secrecy to be worked out between key employees and their employer.

3.30 Second, it is open to a business to protect its physical premises and plant against theft of trade secrets by admission licences. Under this procedure, a business will not allow any person to enter its premises for any purpose, unless that person signs an undertaking to respect the employer's interest in any confidential information with which that person may come in contact. Major high technology companies commonly resort to this practice today.

3.31 Third, it is quite common in practice to "package" new technology when it is sold to other companies. Company X may have developed a new, more efficient method of welding. The mechanical part of that method may have been patented. However, very often there will be a good deal of unpatented (and unpatentable) information and know-how about the conditions under which the new invention works best. This information is reduced to writing, and sold along with the machine, on the condition that it not be divulged to other interested parties without the express consent of Company X. Licencing agreements also commonly contain elaborate provisions as to the persons who will be entitled to use trade secrets, and under what conditions[65]

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[64] The modern law dates from Nordenfelt v. Maxim Nordenfelt Guns and Ammunition Co. [1894] A.C. 535. See (in Canada) Elsey v. J. G. Collins Insurance Agencies [1978] 2 S.C.R. 916.

3.32 Contractual protection of trade secrets is very widely practised in North America today. There does not appear to be any published evidence that problems have developed in practice which could not be addressed by existing principles of contract law.[66]

(3) Equity: Fiduciary Duties

3.33 Persons who occupy positions of particular trust owe, in law, higher duties of allegiance to the persons they represent than those which arise under an employee's general duty of loyalty. These persons are categorized in law as fiduciaries. The incidents which the law attaches to a fiduciary relationship are severe. Fiduciaries are not entitled to put themselves in a position where their duty and personal interests may conflict, and this includes a duty not to traffic in trade secrets gained in a fiduciary capacity. The classical authorities hold the fiduciary to an absolute standard. Thus, even where the beneficiary has knowingly rejected the use of the benefit the information represents, the fiduciary may still be held liable to account to the beneficiary.[67]

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[65] For examples of these kinds of provisions see Pooley, Trade Secrets: How to Protect Your Ideas and Assets (1982), pp. 123-139.

[66] In some American jurisdictions (e.g. Michigan and California) restrictive covenants of this kind are prohibited by law. There does not seem to have been any movement towards this position in Canada. See generally Note, "Economic and Critical Analyses of the Law of Covenants Not to Compete" (1984) 72 Georgetown L.J. 1425; Closius and Schaffer, "Involuntary Servitude: The Current Judicial Enforcement of Employee Covenants Not to Compete - A Proposal for Reform" (1984) So. Cal. L. Rev. 531; Covenants in Restraint of Trade (B.C.L.R.C. 1984).

3.34 There are several difficulties with fiduciary law from the point of view of protection of trade secrets. First, at one time it was thought that there were particular categories of fiduciaries, and that a plaintiff had to bring himself within one of those established categories. That view is probably not now good law. The categories of fiduciaries are, like those of negligence, never closed. However, once obvious situations such as that of trustees and company directors are put to one side, there remains a good deal of room for argument as to how far lesser officials and employees may be subject to fiduciary duties. Some persons who have access to trade secrets may not, in law, occupy a fiduciary position.[68]

3.35 Second, there has been much legal debate as to the person to whom the fiduciary duty is owed. For instance, it is still widely accepted that in relation to companies the director's duty is to the company, not to individual shareholders of the company. This raises practical problems as to who can sue in a given case.

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[67] See generally, Finn, Fiduciary Obligations (1977); Shepherd, Law of Fiduciaries (1981) and the two classic law review articles by Jones, "Unjust Enrichment and the Fiduciaries Duty of Loyalty" (1968) 84 L.Q.R. 472 and Beck, "The Saga of Peso Silver Mines: Corporate Opportunity Reconsidered" (1971) 49 Can. Bar Rev. 80. For a review of the authorities in a recent important Canadian case, see International Corona Resources Ltd. v. Lac Minerals Ltd. (1986) 25 D.L.R. (4th) 504 (Ont. H.C.).

[68] For a recent case where quite senior employees were held not to be "key employees" see Kent Drugs Ltd. v. Kronson (1983) 48 C.P.R. (2d) 260 (Man. C.A.). See also Moore International (Canada) Ltd. v. Carter (1985) 1 C.P.R. (3d) 171 (B.C.C.A.); and 51734 Manitoba Ltd. v. Palmer (1985) 7 C.P.R. (3d) 477, 30 B.L.R. 121 (B.C.S.C.). Even where an employee is of sufficient standing, many Canadian judges have relied upon a "reasonableness" test first enunciated in Alberts v. Mountjoy (1977) 16 O.R. (2d) 682, 79 D.L.R. (3d) 108, 36 C.P.R. (2d) 97, 2 B.L.R. 178 which waters down the classicial law somewhat. See, on this approach, Atkinson and Spence, "Fiduciary Duties Owed by Departing Employees - The Emerging 'Unfairness' Principle" (1984) 4 C.B.L.J. 501.

3.36 Third, the remedies for a breach of a fiduciary duty pose some difficulties in relation to trade secrets. Remedies can be classified as either personal or proprietory. Personal remedies do not entitle the plaintiff to trace a particular piece of property into the hands of third parties. This may be very important in some cases. (E.g., where the defendant is insolvent). Proprietary remedies on the other hand allow tracing. However, whether a trade secret should be considered as property for the purpose of this classification is a very difficult issue. The judgments in the leading Commonwealth authority have not definitively resolved the question.[68]

3.37 In the result, fiduciary law may give rise to an effective remedy against some misappropriations of trade secrets, but even then the results this head of liability will produce depend very much upon who can sue, and the application of a very difficult body of remedial law.

(4) Equity: Unjust Enrichment

3.38 There is no doubt that Canadian law recognizes a doctrine of unjust enrichment. In general terms, this doctrine is aimed at preventing a person from retaining money or some other benefit which it is against conscience that he should keep. Beyond that very broad statement, there is little agreement upon the nature, or incidents of this doctrine. As one academic commentator has noted:

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[68] *Boardman* v. *Phipps* [1967] 2 A.C. 46. However, see, in Canada, *Lake Mechanical Systems Corporation* v. *Crandell Mechanical Systems Inc.* (1985) 31 B.L.R. 113 in which case Locke J. allowed the "remedy" of unjust enrichment in a fiduciary case. But *quaere*: Was this on the footing that the information at issue was proprietary in character?

> The juridical nature of unjust enrichment raises a number of issues. Is the principle nothing more than a general concept which provides unity to the otherwise diverse actions in quasi-contract and equity? Or is the principle an invitation to discretionary justice? The diversity of opinion among judges and commentators can be seen from the diversity of descriptions that they have applied to the principle of unjust enrichment. It has been called the source of a remedy or a source of remedies, a unifying principle, a talisman to distinguish a restitution case from a case in tort or contract, and a generalized right of action.[70]

3.39 In one of the most widely cited English judgments, Goff J. (as he then was) suggested that the principle "presupposes three things: 1/ receipt by the defendant of a benefit, 2/ at the plaintiff's expense, 3/ in such circumstances that it would be unjust to allow the defendant to retain the benefit."[71] In relation to trade secrets these principles raise more questions than they answer. Even assuming a benefit has been received by a defendant, there is no Canadian authority for the proposition that taking or using a trade secret as such without authority is within principles 2 and 3. The suggested principles do not tell us why, and when, the taking of a benefit is at the plaintiff's expense, or why it is unjust that a defendant should be allowed to retain that benefit.

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[70] Klippert, "The Juridical Nature of Unjust Enrichment" (1980) 30 U.T.L.J. 356, at p. 356. See also Klippert, Unjust Enrichment (1983).

[71] B.P. Exploration Co. v. Hunt [1979] 1 W.L.R. 783, 839.

3.40 The conclusion would seem to be, therefore, that however unjust enrichment is conceived, its present parameters are too uncertain for it to be pressed with real confidence in relation to trade secrets.[72] Moreover, despite academic interest in this subject-area, case law development of the law has been sporadic and slow.

(5) Equity: Breach of Confidence

3.41 From about the middle of the eighteenth century English chancery judges began to grant injunctions against what came to be termed a "breach of confidence".[73] The first cases concerned protection of unpublished manuscripts where the manuscript had been communicated to someone upon terms limiting its user, though the parties were not necessarily in a contractual relationship. The early cases contain some confusing language as to the basis of this jurisdiction. As Turner V.C. noted:

> That the court has exercised jurisdiction in cases of this nature does not, I think, admit of any question. Different grounds have indeed been assigned for the exercise of that jurisdiction. In some cases it has been referred to property, in others contract, and in others, again, it has been treated as founded upon trust or confidence, meaning, as

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[72] At least until recently, the bar seems to have recognized this: "Normally in Canada a plaintiff in an intellectual property action does not resort to the broader body of unjust enrichment law....", Gautreau, Book Review, (1984) 1 I.P.J. 82 at p. 84. However, it should be noted that there is, in Canada, one recent decision in which the Ontario High Court allowed a claim in relation to confidential information (an idea for a lottery) under a plea of unjust enrichment. A claim of breach of confidence had failed for want of novelty in the idea. See Promotivate International Inc. v. Toronto Star Newspapers Ltd. (1985) 23 D.L.R. (4th) 196 (Ont. H.C.).

[73] See Hammond, "The Origins of the Equitable Doctrine of Breach of Confidence" (1980) 8 Anglo-American Law Rev. 71.

> I believe, that the court fastens the obligation on the conscience of the party, and enforces it against him in the same manner as it enforces against a party to whom a benefit is given the obligation of performing a promise on the faith of which the benefit has been conferred: but, upon whatever grounds the jurisdiction is founded, the authorities leave no doubt as to the exercise of it.[74]

3.42 By the mid nineteenth century it was clear that equity courts would grant injunctions on a broad principle that "information obtained by reason of a confidence reposed or in the course of a confidential employment, cannot be made use of either then or at any subsequent time to the detriment of the person from whom or at whose expense it was obtained."[75] This principle, which had started life as a means of protecting unpublished manuscripts in the days before modern copyright, was gradually extended in the cases to cover any kind of marketable knowledge.

3.43 During a period from about the late nineteenth century until the second world war, this equitable doctrine fell into disuse. Whether as an accident of legal history or a more conscious choice, the cases during that period were largely argued on the basis of contract theory.[76] However, in a land mark case in 1948, Lord Greene M.R. reaffirmed the existence of the equitable doctrine.[77] Since that time there have been a number of reported cases in all the British Commonwealth jurisdictions as the principles relating to this original head of equity jurisprudence have been articulated and refined.[78]

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[74] Morrison v. Moat (1851) 9 Hare 241; 20 L.J. Ch. 513; 68 E.R. 492, per Turner V.C. at p. 498.

[75] Ashburner, Principles of Equity (2nd ed.) p. 374.

[76] Id. Ashburner suggests that common law judges were attempting to utilise in common law terms, ideas that had originated in equity.

[77] Saltman v. Campbell (1948) 65 R.P.C. 203. For recent Alberta case law see Mobil Oil Can. Ltd. v. Canadian Superior Oil &

3.44 The present law can be summarised thus: The leading judgements have returned to the proposition asserted by the early chancellors. The jurisdiction is based on a broad principle of good faith. "He who has received information in confidence should not take an unfair advantage of it."[79] That doctrine does not depend upon the existence of a contract between the parties or there being property in the subject matter of the confidence. Nor does it depend upon the existence of a fiduciary relationship.[80] It is not confined to trade secrets.

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[77] (cont'd) Nielson [1979] 4 W.W.R. 481 (Alta S.C.); Chevron Standard Ltd. v. Home Oil Co. [1980] 11 B.L.R. 53 (Q.B.), (1982) 35 A.R. 550 (C.A.), leave to appeal to S.C. denied (1982) 40 A.R. 180; Protheroe, "Misuse of Confidential Information" (1978) 16 Alta. Law Rev. 256.

[78] See generally Gurry, Breach of Confidence (1984); Ricketson, The Law of Intellectual Property (1984), pp. 810-859; Cornish, Intellectual Property (1981), pp. 263-291; Law Commission (U.K.), Breach of Confidence, Cmnd. 8388 (1981). The existence of the doctrine was accepted in Canada by the Supreme Court in Slavutych v. Baker, Collier, Swift and University of Alberta [1975] 4 W.W.R. 620; [1976] 1 S.C.R. 254. See also Ridgewood Resources Ltd. v. Henuset (1982) 35 A.R. 493 (Alta. C.A.) and International Corona Resources Ltd. v. Lac Minerals Ltd. (note 67, supra), and the important recent decision of the English Court of Appeal in Faccenda Chicken Ltd. v. Fowler [1986] 1 All E.R. 617.

[79] Fraser v. Evans [1969] 1 All E.R. 8 per Lord Denning M.R. at p. 11.

[80] See Hammond, "Is Breach of Confidence Properly Analysed in Fiduciary Terms?" (1979) 25 McGill L.J. 244. Not all Canadian judges have scrupulously observed the distinction, and some blurring of doctrine between these two heads of liability seems to have occurred in Canada, thereby further obscuring this branch of the law. For recent instances of this kind, see Re Berkey Photo (Canada) Ltd. v. Ohlig (1984) 43 O.R. (3d) 518 (Ont. H.C.); Genesta Manufacturing Ltd. v. Babey (1984) 48 O.R. (2d) 94 (Ont. H.C.). However, see now International Corona Resources Ltd. v. Lac Minerals Ltd. (note 67, supra) in which Holland J. explicitly accepts

information of any kind may come within its reach. The doctrine has however been judicially circumscribed in various ways.[81] First, the information must be confidential. It must not be something which is publicly known. Second, the information must be imparted in circumstances importing an obligation of confidence. This implies some kind of dealing (not necessarily resulting in a contract) between the parties. Thus, the voluble inventor who blurts out his invention at a party may have no redress under this doctrine. And information obtained surreptitiously by some form of industrial espionage may not be actionable.[82] Third, there must have been an unauthorized use of the information. Fourth, in some circumstances, there may be just cause for the use or disclosure of the information. This principle can be traced back to the old equity maxim that there is no confidence in an iniquity,[83] and was subsequently broadened into its present formulation by (principally) Lord Denning.[84]

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[80](cont'd) the distinction.

[81] A widely accepted statement of the limitations appears in the judgment of Megarry J. (as he then was) in *Coco* v. *Clark* [1969] R.P.C. 41. (Ch.). See also Vaver, "Civil Liability for Taking or Using Trade Secrets in Canada" (1981) 5 C.B.L.J. 253.

[82] There is no Canadian authority on this critical point. The only Commonwealth authority for such a proposition is *Franklin* v. *Giddins* [1978] Qd. R.72 (S.C. Queensland); Noted (1979) 95 L.Q.R. 323 (Braithwaite). *Malone* v. *Metropolitan Police Commissioner* [1979] 2 All E.R. 620; [1979] 1 Ch. 344 suggests the position may be otherwise in the U.K. But c/f *Francome* v. *Mirror Newspapers* [1984] 2 All E.R. 408 at 411. Of course, another line of attack would be through the doctrine of unjust enrichment, as to which see *Lake Mechanical Systems Corporation* v. *Crandell Mechanical Systems Inc.* (Note 69, *supra*).

[83] *Gartside* v. *Outram* (1856) 26 L.J. Ch. 113.

[84] See e.g. *Fraser* v. *Evans*, note 79, *supra*. The defence has recently been affirmed by the House of Lords in *British Steel Corp.* v. *Granada Television Ltd.* [1980] 3 W.L.R. 774. The precise ambit of this defence has caused a good deal of

3.45 The remedies which may be available when this cause of action is made out have occasioned much debate. There is no dispute that an injuction may be granted preventing the use of the information, and that judges have the power to order the delivery up and destruction of such things as blue prints or customer lists in the possession of the defendant. There has been a good deal of concern as to the period of time for which an injunction should be granted. A perpetual injunction would put the plaintiff in a better position than a patentee, and this has historically troubled some judges and commentators. As to damages, in theory, if breach of confidence is a doctrine derived from the original equity jurisdiction of a court there is no power to award common law damages for a breach of that obligation. To do so would presuppose a doctrinal fusion of law and equity. In practice, courts have ignored this problem, though it has continued to trouble some commentators seeking to explain the difference (if any) between equitable and legal damages. There is also uncertainty as to whether a court can award damages in addition to an account of profits. Most authorities suggest that an election must be made between damages and an account of profits.[85]

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[84] (cont'd) concern both in the case law and the journal literature. For recent surveys of this issue see Finn, "Confidentiality and the 'Public Interest'" (1984) 58 Aust. L.J. 497 and Hammond, "Copyright, Confidence and the Public Interest Defence: 'Mole's Charter' or Necessary Safeguard?" (1985) 1 I.P.J. 293.

[85] See generally as to these points Vaver, note 81, supra; Gurry, note 78, supra; Ricketson, note 78, supra. See also, Speed Seal Products Ltd. v. Paddington [1985] 1 W.L.R. 1327 (C.A.); Roger Bullivant Ltd. v. Ellis (The Times, June 5, 1986); International Corona Resources Ltd. v. Lac Minerals Ltd. (note 67 supra), and Lake Mechanical Systems Corporation v. Crandell Mechanical Systems Inc. (note 69, supra).

3.46 There is no doubt that Commonwealth lawyers have welcomed the expansion of this doctrine in recent years, and that it enables relief to be obtained in many trade secret cases where there is no contract. There are however, a number of important aspects of this area of the law which are still unresolved.

3.47 First, although the subject matter of a breach of confidence is, in theory, unlimited it is not clear how far the law will go in protecting ideas per se under this doctrine. Traditionally courts in England, Canada, and the United States were opposed to the notion that ideas were somehow legally protectable. More recently, there have been signs in the cases that the courts will now, in some circumstances, protect ideas. For instance, in Fraser v. Thames Television Ltd,[86] an English court recently held that an idea for a television series is protectable by injunction, even if only expressed orally, provided that (a) the circumstances in which it was communicated imported an obligation of confidence and (b) that the content of the idea was clearly identifiable, original, of potential commercial attractiveness and capable of reaching fruition. An Australian Court has come to a similar conclusion.[87] The issues raised by this departure from the classical legal wisdom are difficult and raise once again the dilemma of reconciling the public interest in access to new ideas with what, in some cases, is perceived to be the injustice of permitting someone to commercially exploit the ideas of others. What seems to be happening is that the courts in these cases are struggling for a middle ground somewhere between the comprehensiveness of copyright protection on the one hand and the complete denial of legal protection for ideas on the other.[88] The cases all involve the entertainment industry, which in contemporary culture is marked by a voracious appetite for new ideas, and an obsession with market ratings. Whether the courts will expand this case law into other areas can only be speculative.

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[86] [1983] 2 All E.R. 101. See also, in Canada Promotivate International Inc. v. Toronto Star Newspapers Ltd., (1985) 23 D.L.R. (4th) 196, 8 C.P.R. (3d) 546.

[87] Talbot v. General Television Corp. [1981] R.P.C. 1.

3.48 Second, as already noted, whether industrial espionage as such is addressable under this doctrine is, in the absence of case law authority, still an open question in Canadian law.

3.49 Third, the Courts have not finally resolved how far liability can or should be imposed on third party recipients of the confidential information. There is no doubt that under the existing law, a third party with actual or constructive notice of a breach of confidence is within the doctrine. The position of a bona fide purchaser for value has not been settled in Canada.[89]

3.50 Fourth, the remedial problems which this cause of action creates make it very difficult to advise clients with any real confidence. These difficulties are in turn in part a function of the debate over the conceptual basis of this head of liability.

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[88] See Nimmer, Copyright (1983), Vol. 3, Chap. 16, Para. 16-01 (discussing the U.S. case-law in this area).

[89] See J. Stuckey, "The Liability of Innocent Third Parties Implicated in Anothers Breach of Confidence" (1981) 4 U.N.S.W.L.J. 73. An Australian court has recently held that this defence does not apply to this cause of action. See Wheatley v. Bell [1982] 2 N.S.W.L.R. 544; Noted, Ricketson, in (1984) 1 I.P.J. 65.

Fifth, the ongoing difficulties over the character and extent of the so-called "public interest" defence show no sign of abating.

Sixth, at least one appellate Court has recently held,[90] in a commercial context, that this action rests on a purely personal right, and that therefore a successor corporation could not (despite a valid assignment) rely upon it. This limitation, if it stands, may severely limit the scope of this cause of action.

d. The Overall Effect of the Present Civil Law

3.51 The present civil law with respect to trade secrets can usefully be conceived in terms of an umbrella. The ribs of the umbrella represent various areas of the law under which some measure of protection is available. The umbrella is not however a total protection from the elements - in this case trade secret pirates - and has some distinct rents in it.

3.52 Whether a citizen can obtain legal protection of a trade secret depends upon a consideration of many areas of the law and an intelligent selection of that area which will afford the best legal protection in the particular case. There is no specialist body of law which has a distinct functional application to trade secrets, and is easily located and applied. On the contrary, the legal protection of trade secrets is so complicated that in many cases specialists in all the areas of the law detailed in this chapter may have to be called upon.

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[90] See Moorgate Tabacco Ltd. v. Phillip Morris [1982] 64 F.L.R. 387, (N.S.W.C.A.) per Hope, J.A. at pp. 404-5; aff'd. on other grounds (1984) 59 A.J.L.R. 77 (High Ct. Aust.); noted Hammond, "Breach of Confidence: The Assignability of Rights" (1986) 2 I.P.J. 247. Hammond suggests that there are older English authorities which do not square with Moorgate. See also Spencer J. in 51734 Manitoba Ltd. v. Palmer (1985) 30 B.L.R. 121 at 150 (holding that a successor company can be sued under a claim based on fiduciary theory).

3.53 There is, however, no question that courts have assumed that the legal protection of trade secrets is a good thing. We examine that premise in chapter 5.

CHAPTER 4

THE PRESENT CRIMINAL LAW RELATING TO PROTECTION OF TRADE SECRETS

a. Introduction

4.1 The Criminal Code does not presently contain any provisions that purport to deal directly with trade secrets as such. It does contain a number of provisions of general application which may, in one way or another, proscribe various activities associated with the misappropriation of a trade secret. In this chapter we outline the existing Canadian criminal law bearing on this subject area, and the practical problems associated with this body of law. In so doing, we reserve until later chapters the question of whether, and if so how, the law might be reformed.

b. Constitutional Limitations on the Federal Criminal Power

4.2 In Canada the criminal law is a federal responsibility, unlike the United States, where legislative authority is given to the individual states. The source of the federal power is found in section 91(27) of the Constitution Act, 1867, which grants to Parliament the power to make laws in relation to:

> "[t]he criminal law, except the constitution of courts of criminal jurisdiction, but including the procedure in criminal matters".

The federal power is not unlimited. S. 91(27) must be read with the provincial heads of power, especially s. 92(14) (the administration of justice in the province) and s. 92(13) (property and civil rights).[91]

4.3 It is well established that "resort to the criminal law power to proscribe undesirable commercial practices is today as characteristic of its exercise as has been resort thereto to curb violence or immoral conduct".[92] However more is required of a statute than simply a prohibition together with a penalty if he law is to be upheld as a valid exercise of the federal criminal law-making power. In the Margarine Reference,[93] Rand, J. stated:

> "Under a unitary legislature, all prohibitions may be reviewed indifferently as of criminal law; but as the cases cited demonstrate, such a classification is inappropriate to the distribution of legislative power in Canada.
> Is the prohibition then enacted with a view to a public purpose which can support it as being in relation to criminal law? Public peace, order, security, health, morality: these are the ordinary though not exclusive ends served by that law ...."[94]

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[91] It has been suggested that the Federal Government may have legislative authority over trade secrets. The argument considers such legislation as a form of patent statute: see Notes of a Consultative Meeting on Trade Secret Law, Ottawa, July 4, 1984 at 4. The more traditional view sees trade secret legislation as a provincial responsibility: see Protection of Trade Secrets. (I.L.R.R., 1984). Provincial authority would not preclude the use, by the federal Government, of the criminal law to proscribe misappropriation of trade secrets. The relationship between the federal authority over patents and copyright, and the provincial responsibility for property and civil rights has not been addressed by a Canadian Court. In the United States, the Supreme Court has held that state civil trade secret laws do not pre-empt Federal patent jurisdiction because the protection accorded under the state laws is weaker than the protection available under the patent law: Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974).

[92] Laskin, Canadian Constitutional Law (4th ed., 1975), at 824.

[93] Canadian Federation of Agriculture v. A.-G. Quebec, [1949] S.C.R. 1 aff'd [1951] A.C. 179 (P.C.).

[94] Ibid., S.C.R. at 50. Rand, J.'s reasoning was adopted by the Privy Council.

Although Rand, J.'s requirement of a typically criminal public purpose suffers from his failure to provide a test for the identification of such a pupose, it indicates that a criminal element must be present.[95]

4.4 Any provisions proscribing the misappropriation of trade secrets must also be interpreted subject to the provisions of the Charter of Rights and Freedoms. These include the guarantee of life, liberty and security of person (s. 7), the guarantee of security against unreasonable search or seizure (s. 8), the right to a public hearing (s. 11(d)) and the privilege against self-incrimination (s. 13). The guarantee of these rights and freedoms is subject to such reasonable limits as can be demonstrably justified in a free and democratic society.

c. The Purposes of the Criminal Law

4.5 In considering the present criminal law, it is important to bear in mind the philsophical approach and structure which underpins that body of law. In Canada the Criminal Code is the primary source of criminal law. Although numerous statutes contain specialist offence-enacting provisions, the criminal law of general application is to be found in the Code. The federal Government has recently, through a series of studies,[96] sought to identify the purposes of the criminal law and to articulate guidelines to be used in determining whether conduct can be dealt with adequately through other social institutions, or whether it requires a response by the criminal law.

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[95] In MacDonald v. Vapor Canada Ltd., note 63, supra, the Supreme Court of Canada held that federal legislation proscribing unethical commercial practices was ultra vires. Subsection 7(e) of the Trade Marks Act, R.S.C. 1970, c. T-10 provided that no person should "do any other act or adopt any other business practice contrary to honest industrial or commercial usage in Canada". The Supreme Court determined that the subsection could not be supported as a valid exercise of the criminal law power, the trade and commerce power, or the treaty power.

[96] Canada: Dept. of Justice, The Criminal Law in Canadian Society, Ottawa, 1982; Law Reform Commission of Canada,

4.6 The relevant principles are:

(i) The criminal law has two major purposes:

  (a) the preservation of the peace, prevention of crime and protection of the public--security goals; and

  (b) equity, fairness, guarantees for the rights and liberties of an individual against the powers of the state, and the provision of a fitting response by society to wrongdoing--justice goals;

(ii) The criminal law should be employed to deal only with that conduct for which other means of social control are inadequate or inappropriate; and

(iii) In general, fragmented fact-specific offences should be avoided. Any offence should be one of general application, directed towards the common factors which are perceived as requiring criminal law intervention.

4.7 The first principle properly applied, would recognize that the objectives of a criminal provision prohibiting the misappropriation of trade secrets are not limited to compensating the victim or stripping the offender of his or her ill-gotten gains. Rather, it is a legitimate exercise of the criminal law to seek to protect the existing socio-economic order.

4.8 The second principle implies that restraint should be used in employing the criminal law. Conduct should be made subject to criminal law sanctions only if other social means are

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[96](cont'd) Limits of Criminal Law (Working Paper No. 10), Ottawa.

not available to control it. This incorporates aspects of the second purpose for the criminal law set out above: the fact that other means of social control are inadequate implies that a criminal sanction is the "fitting response." Thus appropriation of a trade secret is not criminal unless it involves an interest (i.e. a trade secret) deserving legal protection, and conduct sufficiently egregious to warrant criminal penalties.

4.9 In the context of trade secrets, the third principle suggests that the particular problem of misappropriation of (say) computer-based information should be considered as part of the general problem of misappropriation of information in society. In both cases, the gravamen of the problem is the unauthorized acquisition, disclosure or use of the information. The reprehensible nature of the conduct does not derive from the use of a particular storage medium, nor require the asportation of a tangible object. However, as we have indicated trade secrets are a manageable sub-set of this general problem.

d. Offences with General Application

4.10 Some actions which would be involved in misappropriating a trade secret are easily dealt with under existing offences of general application. Thus, breaking into a high technology plant, taking a particular item, and then attempting to replicate that item poses no real problems under existing law. In general, any covert act involving a tangible object will be caught by the Code. There may be some incidental technical problems--for instance, the prosecution may have some problems in establishing that a piece of paper, independent of the information that paper embodies, is worth more than $200 for the purposes of the theft provisions of the Code--but those problems are not in and of themselves insurmountable in a common sense way. Certainly, taken by themselves, they do not warrant the searching scrutiny of a full scale law reform exercise.

4.11 The difficult issues arise with respect to information _per se_. As the new information technologies have proliferated and interference with information stored in or on devices such as computers and video records has become more common, serious questions have arisen as to the applicability of the criminal law to such incidents. Four offences are particularly relevant--theft, fraud, mischief and secret commissions--and the present bounds of each of these offences in the above context will be considered in succeeding sections of this chapter. It is also necessary to appreciate that there are certain offences under the copyright legislation which may come into play in this context, and it is convenient to deal with the later first.

e. Offences under the Copyright Legislation

4.12 The current Copyright Act, in sections 25 and 26, sets up a number of discrete offences. It is, for instance, an offence to make for sale or hire any infringing copy of a work in which copyright subsists or to distribute infringing copies of any work either for the purpose of trade or to such an extent as to affect prejudicially the owner of the copyright. Essentially, these offences are all directed to doing something to or in connection with a protected work which has the effect of undercutting the rights of the copyright holder to control replication, that being the principal benefit conferred by the whole scheme of the Act. Copyright controls copying--not information or ideas per se.

4.13 There are two real difficulties with these provisions as they stand. First, there is the above-noted difficulty as to what is protected. Second, the penalties under the Act as it presently stands are derisory. (For instance, the maximum fine is $10 per copy, but "not exceeding $200 in respect of the same transaction." (s. 25(1)). The maximum term of imprisonment is two months.

4.14 The current proposals for copyright reform do not propose to create new offences as such. Rather, specific technologies not presently covered by the Act (such as film and broadcast performances) will be brought within the Act. The penalties would be substantially increased, and may involve a multiple of the value of the gross sales, the rental income, or the remaining inventory of the infringing material, or some combination of these factors.[97]

f. Theft

4.15 Theft is basically an offence against possession.[98] It is defined in section 283 as follows:

> "(1) Every one commits theft who fraudulently and without colour of right takes, or fraudulently and without colour of right converts to his use or to the use of another person, anything whether animate or inanimate, with intent,
>
> (a) to deprive, temporarily or absolutely, the owner of it or a person who has a special property or interest in it, of the thing of his property or interest in it,

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[97] See, note 47, supra, 71.

[98] Mewett & Manning, Criminal Law (1978), 499.

> (b) to pledge it or deposit it as security,
>
> (c) to part with it under a condition with respect to its return that the person who parts with it may be unable to perform, or
>
> (d) to deal with it in such a manner that it cannot be restored in the condition in which it was at the time it was taken or converted.

Section 294 provides that where the value of that which is stolen exceeds $200, the accused is guilty of an indictable offence.

4.16 At common law, the offence was known as larceny and this term is still used in many American jurisdictions. The common law offence required that the thing taken must be "capable of being stolen" but this requirement has been dropped in most modern criminal codes.

4.17 The actus reus of theft requires

(i) taking, or

(ii) converting to one's own use, or

(iii) converting to the use of another person,

(iv) anything whether animate or inanimate.

4.18 Even if there is an actus reus of taking or converting anything, theft is committed only if it accompanied by the requisite mens rea. Section 283(1) requires that the actus reus be done:

(i) fraudulently,

(ii) without colour of right and,

(iii) with one of the intents enumerated in paragraphs 283(1)(a) to (d).

4.19 No Canadian case has discussed the narrow issue of whether s. 283 is applicable to the misappropriation of trade secrets. However, a more general issue, which potentially subsumes that question, has recently been addressed by Canadian courts, viz., is information per se property for the purposes of this section?

4.20 In R v. Stewart an independent "consultant" was requested to obtain the names, addresses, and telephone numbers of employees of a hotel. This occurred in the context of an attempt by a union to organize the hotel, and the information was required for that purpose. There was no question the information was confidential and had been overtly so treated by hotel management. The information was to be copied from confidential records without removing the records themselves. The plan was not in fact carried through because of a "tip-off", but the principal actor was charged with counselling an employee "to commit mischief, fraud and theft of information."

4.21 The trial judge (Krever J.) held (on the theft issue) that the word "anything" in section 283 refers to something which is "capable of being property."[99] This was in line with (at that time) a widely accepted view.[100] The Ontario Court of Appeal held, by a majority, that the confidential information was property, and entered a conviction on the charge of couselling theft.[101] The decision is still under appeal to the Supreme

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[99] (1982) 68 C.C.C. (2d) 305, at p. 317.

[100] See Oxford v. Moss (1978) 68 Cr. App.R. 183 (D.C.); [1979] Crim. L.R. 119; see generally, Eisenschitz, "Theft of Trade Secrets" [1984] 6 E.I.P.R. 91; Hammond, "Theft of Information" (1984) 100 L.Q.R. 252.

[101] (1983), 42 O.R. (2d) 225; 24 B.L.R. 53; 35 C.R. (3d) 105; 5 C.C.C. (3d) 481; 74 C.P.R. (2d) 1; 149 D.L.R. (3d) 583. For the difficulties over sentencing created by the actual

Court of Canada.[102] More recently, in May 1986, the Alberta Court of Appeal in R. v. Offley specifically disagreed with the majority in Stewart (Appeal #8503-9075-A). We are advised that an appeal to the Supreme Court has also been lodged in that case.

4.22 Since the Stewart case is critical to the issues canvassed in this Report, it is appropriate to examine the Court of Appeal's reasoning in some depth. All three judges in the Ontario Court of Appeal accepted that the word "anything" in section 283 was restricted to property. Lacourciere, J.A., in dissent, reviewed existing Commonwealth and American jurisprudence and decided that the weight of authority was against the view that information was "property". He also argued that the civil authorities holding there was "property" in confidential information only showed that under certain conditions civil courts would restrain the transmission or use of improperly obtained confidential information. The majority dismissed existing criminal law authority that information was not property.[103] Houlden, J.A. examined civil law authority in which information was referred to as property, and decided if a thing is property for the purposes of the civil law it is also property for the purposes of the Criminal Code. Cory, J.A. agreed with Houlden, J.A., but relied on the law of copyright to provide additional arguments. Cory, J.A. held that the list of employees constitututed a "literary work" and was

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[101](cont'd) decision see (1984) 8 D.L.R. (4th) 275. (Krever J.).

[102] The case has not yet been listed for hearing, despite the fact that some months have elapsed since the appeal was commenced. We are advised that the appeal is still proceeding.

[103] See Oxford v. Moss note 100, supra.

therefore a proper subject of copyright. The copyright was property encompassed within the words "anything whether animate or inanimate" in the Code. Cory, J.A. qualified this assertion by suggesting that such a list will only be capable of being stolen if it is confidential. The confidentiality of the information was to be tested against the criteria enumerated by Megarry, V.C. in Thomas Marshall (Exports) Ltd. v. Guinle:

> First, I think that the information must be information the release of which the owner believes would be injurious to him or of advantage to his rivals or others. Second, I think the owner must believe that the information is confidential or secret, i.e. that it is not already in the public domain. It may be that some or all of his rivals already have the information: but as long as the owner believes it to be confidential I think he is entitled to try and protect it. Third, I think that the owner's belief under the two previous heads must be reasonable. Fourth, I think that the information must be judged in the light of the usage and practices of the particular industry or trade concerned. It may be that information which does not satisfy all these requirements may be entitled to protection as confidential information or trade secrets: but I think that any information which does satisfy them must be of a type which is entitled to protection.[104]

4.23 The majority was also required to value the information, since Stewart was charged with counselling theft over $200. This issue received cursory treatment in Stewart, as the parties had agreed that the cost of preparing the list by an employee of the hotel would be $210. After observing that the overall payment for the list would have amounted to $3,600, Houlden, J.A. stated that he was satisfied that the information had a value in excess of $200.[105]

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[104] [1978] 3 All E.R. 193 at pp. 209-10. It is less certain how Houlden, J.A. would have limited the information protected. He stated at 5 C.C.C. (3d), 492: "While clearly not all information is property, I see no reason why confidential information that has been gathered through the expenditure of time, effort and money by a commercial enterprise for the purposes of its business should not be regarded as property and hence entitled to the protection of the criminal law."

4.24 Stewart has attracted a good deal of attention from academic and professional commentators.[106] The principle objections which have been made fall into five categories.

4.25 The first objection goes to the breadth of the information protected. No distinction is made between single event or negative information and information used continuously in the course of business. The only limitation on the information protected is the requirement that it be confidential. The confidentiality is to be tested by criteria developed by English civil law. These criteria are less stringent than the restrictions imposed in criminal statutes in many U.S. jurisdictions.[107]

4.26 The decision also suggests that the protection available at criminal law is co-extensive with the civil law protection. It appears that any situation where there is a

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[105] Supra, note 101, 5 C.C.C. (3d) at 496. The court did not determine the method by which information is to be valued. The options available include the market value of the information, the amount that might be paid by a competititor, the cost of duplicating the underlying research or the amount of damage suffered by the holder by reason of the appropriation.

[106] Hammond, note 100, supra, and "Electronic Crime in Canadian Courts" (1986), 6 Oxford Journal of Legal Studies 145; Magnusson, "Kirkwood and Stewart: Using the Criminal Law Against Infringement of Copyright and the Taking of Confidential Information" (1983), 35 C.R. (3d) 129; Hayhurst, Note, [1983] 5 E.I.P.R. 261.

[107] See the statutes reproduced in Epstein, Criminal Liability for the Misappropriation of Trade Secrets (1979). This appears also as Appendix B-5 in Milgrim, note 8, supra.

"taking" or "converting" that gives rise to civil liability will also entail criminal liability.

4.27 Finally, under this head, Stewart implies that numerous other property related offences are applicable to information. For example, s. 320 makes it an offence to obtain by false pretence "anything in respect of which the offence of theft may be committed." Similarly, under s. 306 it is an offence to break and enter "a place with intent to commit an indictable offence therein". Both of these provisions may now be applicable to information. Also, other sections of the Code that are less suited to the problems of trade secrets may also apply. For instance, a third party who comes into possession of a trade secret and later acquires knowledge that the trade secret was stolen could be guilty of an offence under s. 312, Possession of Property Obtained by Crime. Moreover, since the possessor could not divest himself of the information, that person could become, in effect, perpetually guilty. An individual who discloses a trade secret to a third party in contravention of the terms of a licence agreement could be prosecuted under s. 380, Criminal Breach of Contract.

4.28 The second major objection goes to the conduct proscribed by an offence of theft of information. Theft of anything is committed only if there is both an actus reus and a mens rea. The opening words of subsection 283(1) define the actus reus as the "taking" or "converting" of anything. Prima facie therefore the disclosure of a trade secret does not constitute theft.

4.29 Unfortunately, what conduct is proscribed by s. 283 is less apparent. The words "taking" and "converting" admit of no obvious meaning when applied to acts against information. The decision in Stewart does not assist in giving substance to the words, although their meaning was an issue before the court. (Under the agreed statement of facts, no tangible object was to have been taken or converted). Lacourciere, J.A. never reached the question of whether the confidential information was to be taken or converted since he found that confidential information was not anything that could be the object of theft. Houlden, J.A. subsumed the question into his consideration of whether information could be stolen. Cory, J.A. referred to an American decision[108] that "recognized that the memorization of information would not constitute theft"[109] but did not indicate how the information was to be "taken" or "converted".

4.30 "Take" usually denotes the asportation of a physical object.[110] Section 238(2) provides:

> "(2) A person commits theft when, with intent to steal anything, he moves it or causes it to move or be moved, or begins to cause it to become moveable."[111]

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[108] United States v. Bottone, 365 F. 2d 389 (1966).

[109] Supra, note 101, 5 C.C.C. (3d) at p. 498.

[110] An elaborate jurisprudence has evolved in the United States concerning the meaning of "taking". It is to avoid the technicalities associated with the use of "takes" that some states, in the course of revising their theft statutes, have utilized "obtains": see Me. Rev. Stat. Tit. 17-A (Supp. 1973) Comment to s. 353. There have been significant problems in England under the Theft Act 1968 (c. 60). See Leigh, "Some Remarks on Appropriation in the Law of Theft after Morris" (1985) 48 M.L.R. 167; R v. Lloyd [1985] 3 W.L.R. 30 (C.A.).

[111] In R. v. Scallen (1974), 15 C.C.C. (2d) 441 (B.C.C.A.) Bull, J.A. at 473 held that s. 283(2) does not limit the

However the misappropriation of information is not an asportation but the acquisition of knowledge to which one is not entitled. Further, in cases involving the misappropriation of information, there is generally no intention to deprive the holder of possession of the confidential informtion, or of any tangible object embodying it. If the act of theft is to be committed by "taking", that which is taken is exclusive control of the information. However "exclusive control of information" is not the "anything" that Stewart indicates may be the subject matter of theft. Stewart was charged with counselling "theft of information", not "theft of control of information".

4.31 At first blush, there appear to be few problems with the meaning of conversion. Subsection 283(4) indicates that a person already possessing "anything" may convert it, or a person may take it for the purpose of converting it. Thus, an employee who converts confidential information will have committed the *actus* reus of theft. However, this opens the door to convictions for theft in situations where the holder of information is not deprived of any thing, e.g. consider the situation in which a fast food organization decides to open a new outlet. The organization normally purchases its supplies in the open market. An employee, aware of the confidential plans to establish the outlet, leaves to form a company that will manufacture some of the supplies required by the fast food organization. There can be no doubt that the employee in this example has converted confidential information of his or her employer and, subject to

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[111](cont'd) generality of "anything" in s. 283(1) but was "merely a provision intended to have application in certain situations".

proof of the necessary mens rea, is guilty of theft. Given the fact that the fast food organization is not deprived of anything, this result seems anomalous.

4.32 The mens rea elements of the offence do not clarify the meaning of "take" or "convert". Theft is not committed unless the actus reus is done fraudulently, without colour of right, and with one of the intents specified in paragraphs 283(1)(a) through (d). In Stewart, Houlden, J.A. did not analyze whether the actus reus of the employee counselled by Stewart would have been done fraudulently and without colour of right. His analysis of the mental element concentrated on the specific intent with which the information was taken. Houlden, J.A. circumvented the obvious difficulty that the hotel would not have been deprived of the confidential information by holding that the taking was to have been accomplished with the intent specified in paragraph (d). Since the character of confidentiality would have been lost, Houlden, J.A. held that this demonstrated an intent to deal with the information in such a manner that it would not have been returned in the condition it was in at the time it was taken or converted.[112]

4.33 In the result, the case does not clarify what is the mental element necessary to subject conduct to criminal liability. There is no discussion of the requirements that the acts be done fraudulently and without colour of right. Moreover an expansive interpretation of paragraph (d) is necessary to render it applicable to information. However, it is not obvious, for instance that even with this expansive interpretation, that the paragraph would be adequate to deal with an ex-employee who converts to his or her own use the trade secrets of his or her former employee. The confidentiality of the information was lost prior to the conversion, when the information was voluntarily disclosed to the employee.[113]

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[112] Supra, note 101, 5 C.C.C. (3d) at 495.

4.34 A third objection goes to the defences which might or should be available to an accused. The *Criminal Code* does not contain any defence to theft other than that which arises implicitly from the absence of a requisite element of the offence. The question of whether an accused *should* have a defence could be relevant in several situations.

4.35 Cory, J.A.'s judgment suggests that the accused has a defence only where the holder does not reasonably believe that the information is confidential. There is no indication whether the accused has a defence when the information is available from sources other than the victim of the theft, or the information was rightfully known to the accused. The later situation is meant to address the employee who learns a secret in the course of his work. *Stewart* does not indicate whether the subsequent conversion of the secret by the employee is a criminal act.

4.36 Another troublesome situation involves disclosure of information that is in the public interest. Certain sections of the *Criminal Code* provide public interest defences. Section 159 is concerned with the publication, distribution and sale of obscene material and crime comics. Subsection (3) provides that a person has a defence if he or she establishes that the public good was served by the acts alleged to constitute the offence. The motives of the accused are irrelevant. Similarly, under Section 281(2) (Public Incitement of Hatred) it is a defence to establish that the statements complained of were relevant to any subject of public interest, the discussion of which was for the public benefit and that the accused on reasonable grounds believed them to be true.

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[113] English courts have resisted the notion that taking something temporarily to copy it amounts to theft. See *R v. Lloyd* note 110, *supra*. See also *Malone* v. *Metropolitan Police Commissioner*, note 82, *supra* (No immunity from wire-tapping based on a right of property, for no property existed in words transmitted over the telephone).

4.37 The only limitations that Stewart imposes on the information protected concern the confidentiality of the information. Thus, in the apocryphal example of the individual who steals a secret cure for cancer that has been withheld from public knowledge and causes it to be published in the daily newspaper, the offence of theft would still have been committed. In these situations it is a policy question whether a defence should exist. The public interest in dissemination of knowledge must be balanced against the public interest in protecting the confidentiality of information and detering improper conduct. At present however, there is no true defence, merely the discretion available to a Crown Attorney to not prosecute in the circumstances, and the ability of a Court to downgrade the sentence in face of mitigating circumstances.

4.38 A fourth objection concerns the relationship between various areas of the law and the process of law reform. Traditionally, the extent of protection of replicable information has been controlled, both civilly and criminally, by the copyright legislation. The argument under this head is thus that, by judicial fiat, a whole "field" of human activity has been brought into the reach of the Criminal Code, and this at a time when Parliament itself is considering this very question in the course of its exercise in copyright revision. This issue has both substantive and process implications. Some commentators[114] (and judges[115]) appear to feel that a judicial change of this magnitude amounts to a serious breach of process in law revision, and judicial over-reaching.[116]

4.39 The fifth objection relates to the effects of Stewart. This concern goes less to the theoretical and technical dimensions of the law, but speaks more directly to the field impact of the decision. It has been suggested that, as only two examples, the decision could have a significant impact on employee mobility, and that it could affect legitimate "information gathering" in some commercial enterprises, such as the oil and gas industry. Insider trading could well be a criminal offence.

4.40 Those who support this decision appear to do so not only for the technical reasons set forth in the majority judgments of the Ontario Court of Appeal, but on the following general grounds.

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[114] See note 106, supra.

[115] "What is happening is an innovation I would have preferred come from Parliament and not the Courts," per Hutcheon J.A. in R v. Fitzpatrick (1984) 11 C.C.C. (3d) 46 at p. 49. (B.C.C.A.).

[116] Compare the decision of the House of Lords in Rank Film Distributors Ltd. v. Video Information Centre [1981] 2 All E.R. 76; [1981] 2 W.L.R. 668 specifically holding that copyright is not property for the purposes of the Theft Act, 1968 (U.K.).

4.41 First, it is said that it cannot be known whether the decision will be as far reaching as its critics say it could be. Even assuming the decision stands in its present terms, what other courts may do is for the future, and notoriously, any departure in the law requires some working out in subsequent cases. Judges, it is said, could quite easily give Stewart a narrow reading which would dissipate any unfortunate social or economic effects which may become apparent. Moreover, Commonwealth Judges have traditionally had a strong libertarian bent on freedom of speech issues, and would react no differently in this area.

4.42 A second line of argument is that it is useful to have the equivalent of a "fall-back" control device in the law for improper behaviour in relation to the purloining of information. Such a device confers upon the Crown the ability to prosecute unusual cases that would not fit easily or at all elsewhere in the Code. The argument is in fact one for a general "sweeper" provision in the law, of a kind usually associated with broad "war powers" or some "vagrancy" provisions in other jurisdictions. Implicit in such a claim is the assertion that prosecutions would be responsibly mounted, and that the provision would not be used by some government to subjugate an unruly civil servant intent on disclosing some perceived ministerial wrong-doing or a company from preventing a key employee from leaving the employ of the company with alleged company secrets. The provision would be used, or so it is argued, only where it really should be used, and with some real measure of discretion.

4.43 A third line of support for Stewart is an argument that alternative solutions are at least as problematic as a general provision. Thus, it is said, trying to put information into categories for the purposes of civil or criminal law protection would be a difficult exercise, and one which would inevitably be fraught with serious drafting problems. Cases might fall between cracks, definitions might be misunderstood, and technology marches on apace and might well overcome whatever categories are created in fairly short order.

4.44 Fourth, it is said that whether this particular case was correctly decided or not, other cases decided under the fraud and mischief provisions of the Code (as to which see sections g and h of this chapter) also turn on the commodification of information, and suggest that the Courts are moving in that particular direction.

4.45 In view of the direct conflict between the Ontario Court of Appeal and the Alberta Court of Appeal, until the Supreme Court reviews the issue, the law on whether information, or particular kinds of information, can be "stolen" cannot be regarded as definitively settled. The affirmative view of the Ontario Court of Appeal is unique anywhere, and whether it will finally prevail even in this country must be presently regarded as an open question.

g. Fraud

4.46 In contradistinction to the offence of theft, which covers that situation where a person is deprived of property without his or her consent, the fraud offences generally deal with situations where an individual consents to the deprivation, but the consent is meaningless because it was obtained by deceit or as a result of false representations.

4.47 Section 320(1)(a) makes it an offence to obtain by false pretence (defined in section 319) "anything in respect of which the offence of theft may be committed". As a result of the Court of Appeal decision in Stewart, obtaining a trade secret by false pretence would constitute an offence.

4.48 The principal fraud provision in the Code is section 338, which is entitled "Fraudulent Transactions relating to Contracts and Trade". It provides

> "338(1) Everyone who, by deceit, falsehood or other fraudulent means, whether or not it is a false pretence within the meaning of this Act, defrauds the public or any person, whether ascertained or not, of any property, money, or valuable security,
>
> (a) is guilty of an indictable offence and is liable to imprisonment for 10 years, where the subject matter of the fraud is a testamentary instrument or where the value thereof exceeds $200 ... ."

4.49 Section 338 was recently reviewed by the Ontario Court of Appeal in Regina v. Kirkwood.[117] The accused was involved in the sale and rental of counterfeit video tape cassettes. The counterfeit tapes were obtained from various sources and duplicated by the accused. No attempt was made to contact the owners of the copyright or distribution rights of the counterfeit cassettes to obtain those rights, and no revenues of any kind were remitted to the owners of the rights for the use of the films. The accused was acquitted at trial on the basis that there was no relationship between him and the victims of the fraud. The victim was the copyright owner, and not the public at large. The Ontario Court of Appeal allowed the Crown's appeal and ordered a new trial. The judgment of the Court was written by Lacourciere, J.A. (who dissented in Stewart).

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[117] (1983) 5 C.C.C. (3d) 393; 35 C.R. (3d) 97; 73 C.P.R. (2d) 114. See generally Hitchcock, "Intellectual Property Infringement as Criminal Fraud" (1984) 1 Can. Intellectual Prop. Rev. 182.

4.50 The behaviour of the accused violated the penal provisions of the Copyright Act dealing with the commercial exploitation of a work in violation of the copyright. However only minimal penalties are provided: for the first offence, the maximum fine is two hundred dollars. These provisions were not discussed in the Court of Appeal judgment.

4.51 The Court acknowledged in Kirkwood that where the Crown relies on proof of deceit or falsehood to support the charge of fraud, there must exist some nexus between the perpetrator of the fraud and the victim. However, this is not the case where the Crown relies on "other fraudulent means" to support the charge. The two essential elements of fraud are dishonesty and deprivation, "the latter element being satisfied by proof of detriment, prejudice or risk of prejudice to the economic interests of the victim."[118] The fact that the accused was distributing, on a commercial basis, counterfeit video cassettes was evidence from which the trier of fact could infer an awareness of the risk of prejudice to the economic interests of the owner of the distribution rights. The owners of these distribution rights would be deprived of the money earned despite the absence of a relationship between the parties which induced the parting of money. The dishonest nature of his conduct was conceded by the accused. In any event, his actions were contrary to the Copyright Act so that the Crown would have had little difficulty establishing that they were "dishonest".

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[118] R v. Olan, Hudson and Harnett (1978) 86 D.L.R. (3d) 212; 41 C.C.C. (2d) 145 per Dickson J. at 150, quoted by Lacouriere, J.A. at 5 C.C.C. (3d) at 398. See also Scott v. Metropolitan Police Commissioner [1975] A.C. 819.

4.52 Section 338 was also applied in Stewart. The Ontario Court of Appeal held that Stewart could also have been convicted of counselling fraud. Houlden, J.A. decided that if information is property for the purposes of section 283(1), it is also property for the purposes of section 338. The deprivation component of dishonest deprivation was satisfied on proof of detriment, prejudice or risk of prejudice to the economic interests of the victim. It was not essential that there be actual economic loss as the outcome of the fraud. The evidence in Stewart established that promotional groups had approached the hotel to obtain the list of employees' names. The Court therefore assumed that the hotel would have been able to profit from selling the list. Thus the taking of the information would have caused risk of prejudice to the hotel's economic interests and this was sufficient to prove the element of deprivation.[119]

4.53 The Ontario Court of Appeal's interpretation of s. 338 has several consequences.[120] First, it expands the range of conduct that amounts to fraud. Acquiring knowledge of a trade secret by deceit, falsehood, or other fraudulent means is clearly now an offence under the section. While this result follows directly from the holding in Stewart that information is property, the conclusion can also be reached indirectly in those cases where the holder of the secret, as a result of other fraudulent means, is deprived of the money or property, e.g. the licence fee, that would otherwise have been obtained.[121]

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[119] 5 C.C.C. (3d) at p. 496.

[120] This decision has been followed by the British Columbia Court of Appeal in R v. Fitzpatrick (1984) 11 C.C.C. (3d) 46.

4.54 Second, section 338 on the Kirkwood reasoning, would proscribe the unauthorized commercial exploitation of a trade secret. Where a trade secret has a commercial value that is intended to be exploited by the victim, say by means of licencing agreements, the unauthorized exploitation of the secret by an individual will represent a prejudice to the economic interests of the victim sufficient to constitute the deprivation required by a charge of fraud.

4.55 Third, the section as so interpreted also appears to proscribe non-consensual acquisitions of a trade secret. Section 338 requires dishonest deprivation. Deprivation is established by demonstrating risk of prejudice to the economic interests of the holder. However since anything can be sold or licenced to the economic benefit of the owner, the taking of anything, including a trade secret, represents a dishonest deprivation by other fraudulent means sufficient to support a charge of fraud.

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[121] The behaviour proscribed under paragraph 320(1)(a) is not identical to that proscribed under s. 338. The false pretence required for paragraph 320(1)(a) is defined in s. 339 in terms of "a representation of a matter of fact, either present or past". Thus, as Mewett and Manning, supra n. 96 at pp. 533-4 suggest, a promise to pay for goods in the future, but failing to honour that promise, is not a false pretence, though it may constitute deceit or fraud. Conversely, a statement by an accused that he has sufficient money to pay for goods may be a lie and therefore a false pretence. However if, at the time, he honestly intends to pay for the goods, it would not be fraud.

Thus, the unauthorized acquisition of a trade secret constitutes both fraud and theft. This is opposed to the traditional distinction between the two offences which has been based on whether the victim consented to the deprivation.

4.56 Bill C-19, the proposed Criminal Law Reform Act 1984, which died on the Order Paper in the Thirty-second Parliament, would have substantially revamped the Fraud offences. Section 320, Obtaining by False Pretences, was to have been repealed. Section 338 would have been amended:

> "338(1) Every one commits fraud who without a claim of right, by means of dishonest representation, dishonest non-disclosure or dishonest exploitation, induces any person to relinquish property, to provide a service or to suffer a financial loss."

The amendment would have required a relationship between the perpetrator of the fraud and the victim. Thus acquisitions, with consent, where the consent was fraudulently obtained, would still have been within the purview of the section. However the unauthorized commercial exploitation of a trade secret, behaviour similar to that involved in Kirkwood, would not have been caught.

h. Mischief

4.57 "Mischief" is not a "taking" type offence, but it may have a prophylactic role to play with respect to trade secrets. Under s. 387 of the Code, mischief may be committed by any person who inter alia, "destroys or damages property" (ss. (1)(a)) or "obstructs, interrupts, or interferes with any person in the lawful use, enjoyment or operation of property." (ss. (1)(d)). "Property" for the purposes of these provisions is defined under

s. 385 as "real or personal corporeal property." If a trade secret is within those provisions, they could presumably be invoked to prosecute a trade secret pirate at the secondary level. That is, even if the "taking" was not caught under Stewart, mere interference with a trade secret may be proscribed.

4.58 There is no present Canadian authority for any such proposition. The most relevant case would appear to be R v. Turner.[122] There the Ontario High Court held that electronic manipulation of data stored on computer tapes can constitute mischief in relation to private property. Gray J. did not say that "data is property." His Lordship seems to have had in contemplation something closer to what has been termed an "integrity" argument:[123] that a person is entitled to enjoy property (in this case the tapes) in precisely the form in which it was prior to the interference.

4.59 Depending upon the particular kind of trade secret at issue, it seems that, particularly in relation to the new electronic technologies, some cases of interference with a trade secret may be reached under these provisions.

i. Secret Commissions

4.60 Section 383 of the Criminal Code provides:

> "(1) Everyone commits an offence who
>
> (a) corruptly
>
> (i) gives, offers or agrees to give or offer to an agent, or

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[122] (1984) 27 B.L.R. 207; 13 C.C.C. (2d) 430.

[123] See Hammond, "Electronic Crime", note 106, supra.

> (ii) being an agent, demands, accepts or offers or agrees to accept from any person,
>
> a reward, advantage or benefit of any kind as consideration for doing or forebearing to do, or for having done or forborne to do, any act relating to the affairs or business of his principle or for showing or forbearing to show favour or disfavour to any person with relation to the affairs or business of his principal ... ."
>
> "(3) A person who commits an offence under this section is guilty of an indictable offence and is liable to imprisonment for two years."
>
> "(4) In this section "agent" includes an employee, and "principal" includes an employer."

The word "corruptly" in this context is simply used to designate the act of secretly rewarding an agent in respect of the affairs of his principle, and does not import a requirement of an evil or dishonest intent into the definition of the offence.[124] The purpose of the provision is to protect against "secret transactions or dealings with a person in the position of an agent concerning the affairs or business of the agent's principal.[125] However it has been invoked in response to the unauthorized disclosure of information. In Atkinson (No. 1),[126] the accused was a member of the Finance Committee of a New Brunswick political party. A friend of the accused was hired by the New Brunswick Department of Public Works which was at that time responsible for the awarding of contracts. The accused paid the employee $384 per month to obtain the names of contractors who were successful in obtaining Government contracts prior to the formal awarding of contracts so that political contributions could be obtained from these parties. The New Brunswick Court of Appeal agreed with the trial judge that the conduct of the accused in planting the employee in the Department and in paying monthly sums to him was corrupt conduct within the meaning of the statute.

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[124] R v. Brown (1956) 116 C.C.C. 287.

[125] Ibid., at 289.

[126] (1981) 57 C.C.C. (2d) 491.

4.61 Section 383 does not address situations where an employee converts a trade secret to his or her own use. However, Atkinson suggests that the section may be used to address certain cases of misappropriation of trade secrets, where the misappropriation is accomplished by bribing an employee. This result has been held to follow in England.

4.62 Under the English Prevention of Corruption Acts of 1906 and 1916 two offences, triable summarily or by jury, were created. They are similar to section 383 of the Criminal Code and in essence makes it an offence (i) for an agent to obtain or attempt to obtain any gift or consideration; or (ii) for anyone to give or offer any gift or consideration to an agent, as a reward for doing any act in relation to the affairs of his principal or for according favour of disfavour to any person in relation to his principal's affairs. "Principal" and "agent" are general terms and include employer and employee respectively.

4.63 In R. v. Merkin and Hall[127] Merkin operated a detective agency and Hall worked for him. On Merkin's instructions, Hall offered an employee of British Titan Products £150 to obtain answers to questions about a new process for producing paint pigment developed by the company at a cost of over one million pounds. Merkin and Hall were charged with conspiring to obtain, by corruption or other illegal acts, confidential information, and with corruptly offering to pay £150 for the information. They were convicted, and fined £1,500 and £100 respectively for the conspiracy and £1 each for offering the money. The name of the agency's client who requested details of the process never came to light.[128]

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[127] R. v. Hall and Merkin, Lincolnshire Assizes, October 1971, report in the Lincolnshire Echo, 8, 9 and 11 October 1971. The case is not reported in the Law Reports. It, and the application of the Prevention of Corruption Act to theft of trade secrets, are discussed in Eisenschitz, supra, note 100.

j. Conclusion

4.64 At first blush, Canada appears to provide wide protection under the criminal law against the misappropriation of trade secrets, as well as other business information. The apparent protection results both from the prohibitions contained in the anti-corruption offences such as s. 383 (Secret Commissions) or s. 338 (Fraud), and from the sanctions contained in the property related offences that, as a result of the decision in Stewart, may be applicable to information. Unfortunately the application of the latter category of offences involves uncertainties and difficulties that make it difficult to determine with any precision just what protection they do provide, or whether the present law is appropriate to present Canadian circumstances.

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[128] Some American jurisdictions have similar provisions and have reached like results. See e.g. State v. Landecker (1924), 126 A. 408; Applebee v. Skiwanek (1912), 140 N.Y.S. 450.

4.65 First, there is little guidance, other than the four criteria articulated in Thomas Marshall (Exports) Ltd. v. Guinle , as to what information is protected, or how it relates to knowledge the acquisition, disclosure or use of which will be restrained by the civil law.

4.66 Second, while the conduct proscribed under these sections appears extensive, the attempted application to information of principles developed to restrain acts against tangible objects has its difficulties. This is not a matter of wrestling with the inevitable marginal cases, but rather of seeking to determine the basic meaning of notions such as the "taking" or "converting" of information.

4.67 Third, the definite "black and white" nature of the conduct proscribed in the offences makes questionable their application to situations in which the drawing of distinctions is surely necessary. For instance, the language of the offence of theft is inappropriate to distinguish the behaviour of employees giving rise to civil liability from that behaviour which carries criminal consequences.

4.68 Fourth, whatever protection is currently available could be significantly altered if the amendments to the Criminal Code presently before Parliament are enacted. The amendments would, inter alia, narrow the purview of s. 338 and require some relationship between the parties before the fraud provision was applicable.[129]

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[129] For Bill C-19 see the series of articles under the title "Reforming the Criminal Law" in (1984) 16 Ottawa Law Rev. at pp. 297-444. See, in particular, Piragoff, ("Computers") at p. 306; Ziff ("Theft and Fraud") at p. 431.

4.69 Fifth, the pending appeals of the decisions in Stewart and Offley to the Supreme Court of Canada renders any assessment of the degree of protection speculative at best. In the result, the extent to which trade secrets are presently protected against misappropriation under the general provisions of the Criminal Code is ill-defined and uncertain. The various Canadian decisions which have led to convictions are "stop-gap" solutions, which attempt to squeeze information related disputes into the existing Code, rather than giving the subject-area the systematic consideration it deserves.

CHAPTER 5

POLICY: SHOULD TRADE SECRETS BE LEGALLY PROTECTABLE?

a. Introduction

5.1 In Chapters 3 and 4 we indicated the manner and extent to which a trade secret can be protected under the existing law. The particular result may be "good" from the perspective of an individual client, but it does not necessarily follow that allowing such protection is in the overall interests of society.

5.2 The purpose of this chapter is therefore to establish an understanding of the policy issues which are involved in granting or withholding legal protection with respect to trade secrets. Issues of that kind rarely admit of unqualified answers. We therefore seek also to establish the sort of limits that should be placed on such protection, if it is to be continued.

5.3 The arguments for legal protection of trade secrets can usefully be grouped under three heads - moral, economic, and pragmatic. We deal with each of them in turn. We then deal with countervailing policy considerations and a possible resolution of the various competing interests.

b. Moral Arguments for the Protection of Trade Secrets.

5.4 There are three quite distinct moral arguments which might be asserted with respect to trade secrets. The first is concerned with a Lockean view of property, the second with claims to personal autonomy, and the third with business ethics.

5.5 The statement that "every man is entitled to the fruits of his own labour" has become a truism. This populist view is a crude reflection of the classical liberal theory articulated by John Locke.[130] Locke included "property" in his sacred trinity of "life, liberty, and property". The central issue in justifying any regime of private property, is how exclusivity - the hallmark of a property interest - is to be sanctioned in the absence of the consent of one's fellow men. Locke's answer was that private property is an institution not of man, but of nature. Men can choose their forms of governments but in matters of property they have not the right of choosing. The modern view of property by way of contrast is that it is conventional: property rights are created by man. They are valid only because men have agreed to respect them, and will (if necessary) collectively enforce those understandings.

5.6 The Lockean view is important in relation to intellectual and industrial property laws. Authors, composers and inventors usually see their work in a Lockean light and claim that a denial of a right to exploit what they create is intrinsically unjust. That viewpoint in fact found its way into some formal European codes. French law, for instance, divides an author's rights into two quite distinct elements. The moral element is exemplified by so called paternity rights: claims of authorship, to protection of the integrity of the work and even the right to withdraw a published work from the market. The pecuniary element is recognized through rights of exploitation. Anglo-Canadian copyright law on the other hand makes no such distinction. Copyright does not depend upon natural or moral rights at all, but solely upon statute. That statutory right was arrived at only after an analysis of all the various interests involved, with a particular emphasis on the public interest. The statute law gives very carefully defined rights to authors, and it is only as a matter of legal shorthand that we refer to the bundle of such rights as "property".

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[130] Of Civil Government (1690).

5.7 This debate, which has been overt with respect to copyright law, also lies behind the conflict of opinion over trade secrets. In much the same way as an author considers himself as having a natural right in his manuscript, the discoverer of a secret formula usually considers it to be "his" by natural right.

5.8 Whatever views individuals may hold with respect to these issues, it seems quite unrealistic to expect that the pragmatic thrust of Anglo-Canadian law can now somehow be changed in the direction of natural law theories. Nor is it obvious that such a change should be made. The resolution of legal issues routinely involves the clarification and adjustment of a number of competing interests in an even handed manner. Even real property today "belongs" to somebody in only a highly qualified sense.

5.9 The second argument which appeals to morality goes to the issue of personal autonomy. As one commentator has put it, "it invokes the individual's legitimate claim to control over secrecy and openess about thoughts, ideas, inventions and plans. Someone who cherishes a secret recipe or who is working in secret on a new design for a machine may see its secrecy as of the highest personal importance, and efforts to discover the secret as invasive in the extreme. The invasiveness of such action is especially blatant when the secret exists in thought only. To try to wrench it loose by force or trickery is then not only an inroad on secrecy but on basic liberty."[131]

5.10 There are difficulties with this line of argument. It does not follow that a claim to personal autonomy can be elevated to a claim for collective autonomy. That is, such a claim might be legitimate for an individual, but is it true of Coca Cola? It is perhaps for this reason that at the individual level, claims to be morally entitled to protect a secret more closely resemble privacy claims.

5.11 The third moral argument is more difficult to analyse. In general terms it asserts that misappropriation of a trade secret offends commercial ethics. As Megarry J. put it, "[A] court must be ready to make those implications upon which the sane and fair conduct of business is likely to depend."[132] And in a famous dictum, Holmes J. claimed that: "The word 'property' as applied to trademarks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith."[133]

5.12 A good faith requirement is defensible in abstract terms as a proscription of dishonesty, but like a concept of unfair competiton it is not easy to give content to it for practical guidance. Flagrant espionage involves the appropriation of time, skill and money employed by another person. Other cases are more difficult to analyse in these terms. For instance, convincing a key employee that his best interests and his future lie elsewhere may proceed from impure motives, but actually be for the best both for him and his potential contribution to society. The particular conduct the courts attempt to proscribe has sometimes been described as "free-rider" behaviour. This term conveys a sense both of the moral wrong as well as the economic interest at stake.

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[131] Bok, Secrets (1982), 141.

[132] Coco v. Clark [1969] R.P.C. 41 (Ch.) at p. 51.

[133] E.I. du Pont v. Masland (1917) 244 U.S. 100, 37 S. Ct. 575 at 575-576.

5.13 The judges may have been wise to leave the good faith argument at the general level. There is a societal benefit in insisting on at least minimal standards of commercial ethics. Our socio-economic system could probably not survive without at least some restraints on predatory behaviour. Whether the good faith principle is offended in a particular case is partly a matter of the practices and customs in a particular industry, and partly an appreciation of a level of conduct which any reasonable member of society would not condone.

c. Economic Arguments for Protection of Trade Secrets

5.14 British Commonwealth judges have consistently viewed this subject area in "conduct" terms. Whilst not discounting the importance of that approach, U.S. judges[134] and commentators have gone further, and have attempted to articulate economic rationales for the legal protection of trade secrets.[135] These relate to the diffusion of technology, rewards for creativity, and the personal interest of employees in mobility of labour.

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[134] In Ruckelshaus v. Monsanto (1984) 81 L. Ed. (2d) 815 the U.S. Supreme Court relied explicitly and strongly on economic rationales for trade secret protection.

[135] Particularly useful are E. Kitch "The Law and Economics of

5.15 These rationales do not rest upon a simple assertion that a trade secret is, or should be, somebody's "property". They have to do with a recognition of the importance of both the production and disemination of "good information" throughout society. Nevertheless, it is convenient here to mention briefly the argument that a trade secret is "property" and should be treated as such by the law.[136]

5.16 To say that X is Y's "property" is to imply that Y has both the ability and the lawful right to exclude everybody else from using or interfering with X. Information or secrets - as has been repeatedly pointed out by analysts from many disciplines - does not readily lend itself to such a notion. For instance, a customer list can be copied an infinite number of times without affecting the original list, whereas a removal of gravel by X from Y's land seriously affects the land. A second kind of difficulty with treating a trade secret as property is that such a categorisation sets off a string of legal incidents which may or may not be desirable in a particular case.

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[135](cont'd) Rights in Valuable Information" (1980) 9 J. Legal Studies 683; T. Robison, "The Confidence Game: An Approach to the Law about Trade Secrets" (1983) 25 Arizona Law Rev. 347.

[136] For a fuller discussion see infra, paras. 7.14 et seq. and Hammond, "Quantum Physics Econometric Models and Property Rights to Information" (1981) 27 McGill L.J. 47. See also, on the general issue Mackaay, Economics of Information and Law (1982); Gurry, note 78, supra, at pp. 46-56; Jones, "Restitution of Benefits Obtained in Breach of Another's Confidence" (1970) 86 L.Q.R. 463 at pp. 464-5.

5.17 Nevertheless the arguments which are made for a trade secret as a "property" interest do point up, in a general way, the economic desirability of there being some kind of economic reward for innovative behaviour. However, the extent and terms of that reward, need not necessarily be cast in terms of an exclusive "property" interest.[137] The "property" argument should also remind us that most businesses treat information and trade secrets as if they were assets, at least for some purposes.

5.18 As to the broader economic issues, the first concerns the relationship between employer and employee, and the effect that relationship has on diffusion of information. The policy dilemma here has been concisely articulated by the Supreme Court of Pennsylvania in a well-known judgment:

> [There is] a problem of accommodating competing policies in our law: the right of a businessman to be protected against unfair competition stemming from the usurpation of his trade secrets and the right of an individual to the unhampered pursuit of the occupations and livelihoods for which he is best suited. There are cogent socio-economic arguments in favor of either position. Society as a whole greatly benefits from technological improvements. Without some means of post-employment protection to assure that valuable developments or improvements are exclusively those of the employer, the businessman could not afford to subsidize research or improve current methods. In addition, it must be recognized that modern economic growth and development has pushed the business venture beyond the size of the one-man firm, forcing the businessman to a much greater degree to entrust confidential business information relating to technological development to

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[137] J.S. Mills warning is still of critical relevance: "The laws of property have never yet conformed to the principles on which the justification of private property rests. They have made property of things which never ought to be property *and absolute property where only a qualified property right ought to exist*." (*Principles of Political Economy*, Book II. Ch. 1; Italics added).

> appropriate employees. While recognizing the utility in the disperson of responsibilities in larger firms, the optimum amount of "entrusting" will not occur unless the risk of loss to the businessman through a breach of trust can be held to a minimum.
>
> On the other hand, any form of post employment restraint reduces the economic mobility of employees and limits their personal freedom to pursue a preferred course of livelihood. The employee's bargaining position is weakened because he is potentially shackled by the acquisition of alleged trade secrets; and thus, paradoxically, he is restrained, because of his increased expertise, from advancing further in the industry in which he is most productive. Moreover, as previously mentioned, society suffers because competition is diminished by slackening the dissemination of ideas, processes and methods.
>
> Were we to measure the sentiment of the law by the weight of both English and American decisions in order to determine whether it favors protecting a businessman from certain forms of competition or protecting an individual in his unrestricted pursuit of a livelihood, the balance would heavily favor the latter. Indeed, even where the individual has to some extent assumed the risk of future restriction by express covenant, this Court will carefully scrutinize the covenant for reasonableness "in the light of the need of the employer for protection and the hardship of the restriction upon the employes."\.... It follows that no less stringent an examination of the relationship should be necessary where the employer has not seen fit to protect himself by binding agreement.[138]

5.19 A second critical economic issue is whether trade secret protection has a beneficial effect on creativity in society. This issue cannot be considered in isolation from patent policy, and indeed innovation policy in general.[139]

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[138] Wexler v. Greenberg (1960) 160 A.R. 430, at pp. 434-435.

[139] See generally, Kingston, The Political Economy of Innovation (1984); Givens, Legal Strategies for Industrial Innovation (1982); Intellectual Property Rights and Innovation

5.20 Patent law and policy proceeds on the premise that some legal protection is required for innovators[140] to risk the often enormous costs in time and money of a given development. The productive effort thereby fostered may well have a positive effect on society through the introduction of new products and processes into an economy, and this in turn is supposed to lead to fuller employment and better lives for citizens.[141] This legal protection takes the form of an absolute, state supported, but time limited monopoly. The price of this monopoly is disclosure. The patentee is required to publicly describe his invention in such a way that other persons may make it, when the time has expired. Moreover, if the patentee does not utilize his patent, the legislation provides for a system of compulsory licences.

5.21 There has been much debate about whether the patent system actually achieves the objectives claimed for it. There is a very real difficulty in establishing the facts. All western

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[139](cont'd) (Cmnd. 9117, HMSO, London, 1983); Brett, "The U.K. Government's Green Paper--A Critical Analysis" [1984] 6 EIPR III; Klueck, "The Coming Jurisprudence of the Information Age: Examinations of Three Past Socio-Economic Ages Suggest the Future" (1984) 21 San Diego L.R. 1077; Pendleton, "Intellectual Property, Information-Based Society and a New International Economic Order--The Policy Options?" [1985] 5 EIPR 31.

[140] Kingston, note 139, supra, draws a distinction between "invention" and "innovation." The former goes to a relatively narrow activity (creating new ideas), the latter to a much broader activity (getting new things done). (Page 35). Basically then, innovation is concerned with what happens beyond the initial "pure idea."

[141] It has been demonstrated, fairly convincingly, that "the advance of knowledge" contributed about 40% of the total increase in national income per person employed in the United States from the 1930's to the 1960's: see E. Denison, The Sources of Economic Growth in the United States (1962).

countries have some form of patent laws, and therefore it is not possible to compare the economic performance of countries which have such systems against those that do not. The most useful litmus test is Holland, which abolished its patent system between 1869 and 1912. One study demonstrated that that country's exports showed a diminishing proportion of manufacture through that period and that this was due to the absence of a patent system.[142] In general however, economists have had difficulty in making valid generalisations because the size of firms, differences in markets and so on give rise to many variables.

5.22 Nevertheless, all the formal enquiries into this question (including those in Canada)[143] have come out in favour of maintaining the patent system. The conclusions of the Banks Committee in the U.K. are typical:

> (i) Wherever industry has developed, patent systems have emerged and been adopted and have played an important role in encouraging innovation.
>
> (ii) No alternative system for the encouragement and growth of new industry by private enterprise has been established.
>
> (iii) National patent systems have been of increasing importance in the worldwide development of technology, with resulting

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[142] A.F. Ravenshear, The Industrial and Commercial Influence of the English Patent System (1908).

[143] See e.g. Economic Council of Canada, Report on Intellectual and Industrial Property (1971).

> benefit to the expansion of international trade.
>
> We concluded that the value of the patent system is established in the terms expressed above.[144]

5.23 If patents are supposed to encourage both creativity and disclosure, how does trade secret protection fit into the economic scheme of things? It is difficult to see how encouragement of creativity could be disturbed by the existence of another form of legal incentive. The real issue therefore must relate to disclosure as a condition for legal protection. The difficulty here is that there are three situations which might evoke different answers.[145] (i) The trade secret may be known to be not patentable. (ii) The trade secret may be believed, by its owners, to be patentable but that step may not have been taken. (iii) The patentability of the trade secret may be very doubtful. We will deal with each of these situations in turn.

5.24 As to trade secrets which are not patentable, from an economic perspective, several things would likely happen if trade secret protection was done away with altogether or was too weak. There would be no, or no sufficient, incentive to invest in something which was not potentially protectable. There would probably be an increased number of worthless patent applications, thereby further bogging down already over loaded Patent Offices.

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[144] Cmnd. 4407, p. 15.

[145] These three categories are suggested in Painton & Co. v. Bourns Inc. (1971) 442 F. 2d 216, and Kewanee Oil v. Bicron Corp. (1973) 416 U.S. 470.

Security precautions within companies would have to increase, and salary patterns would probably change. Companies would have to make very sure that it was not worthwhile for valuable employees to decamp. Smaller companies would be at a disadvantage in these respects. The increased costs would be passed to consumers. Innovative entrepreneurs would narrow the circle of those they felt they could trust. Ultimately, organized scientific and technological research could become fragmented. If there is no, or no sufficient, legal protection for trade secrets, there would be no way of licensing others to exploit them. If a trade secret holder could not utilize licences, either he would have to limit his utilization of the invention, or build manufacturing and marketing facilities for himself. Whether the trade secret holder can do this more efficiently than a possible licensee depends upon the particular circumstances of the trade secret holder and his licensee. Some degree of economic inefficiency is likely.

5.25 As to trade secrets which are probably patentable, the issues are more difficult.[146] The trade secret holder has voluntarily chosen to bypass the patent system, which requires disclosure as a condition of protection. Is this desirable? If it is not, the conclusion (from an economist's view point) would presumably have to be either that trade secret protection should be disallowed altogether, or protection should be extended only to those trade secrets which are definitely not patentable.

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[146] The assumption in this category is that the trade secret has been developed to the point where it could, if it otherwise met the terms of the Patent Act, be patentable.

5.26 The only final appellate court to have given a judgment on the relationship between patent policy and trade secret policy is the U.S. Supreme Court in the Kewanee case.[147] That Court argued that trade secret law is "weaker than" patent law and therefore not in conflict with it.[148] Also, the Court specifically adopted the ripeness-of-time theory of invention. This holds that when something is ready to be discovered it will be, and probably by more than one person.[149] Hence, argued the court, when the trade secret is "used", it will alert competitors to its existence (though not its details) and competitors will themselves then make an effort and discover the secret for themselves. Thus, it was held, patent law and trade secret law should be allowed to co-exist, and perform discrete (though related) functions.

5.27 The ultimate question would seem to be this: is a strong system of trade secret protection likely to detract from the protection for disclosure theory espoused by the patent statute? The answer must be in the negative. Much useful and valuable information does not and never will come within the Patent Act. And where, logically, does the duty of disclosure stop? Should there be a sort of societal clearing house for every idea jotted down in a notebook at the inventor's bedside? The sensible answer seems to be that the judges have been correct in their assessment: there is a tier of interests, of less than patentable status, but above mere jottings, that require legal protection. In this sense trade secret protection is complementary to patent protection.

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[147] Note 145, supra. See also Ruckleshaus v. Monsanto, note 134, supra.

[148] "Weaker" because it gives no protection against reverse engineering, does not operate against the world, and is subject to greater risk of interception.

[149] This is not necessarily a "deterministic" argument, but is equally compatible with the idea that a particular set of social conditions will suggest a "problem" and "solution" to more than one mind at very much the same time. In this sense, innovation is "social." See Kingston, Innovation (1977) at p. 34 and Gilfillan, The Sociology of Invention (1935).

5.28 Finally, under this head, the consequences of adopting a policy of only partially allowing trade secret protection should be noted: provincial civil courts would be required to distinguish, as a threshold question, between what a reasonable inventor would and would not correctly consider to be clearly patentable. This would amount to nothing less than a patent action before the trade secret issues could be resolved. Such a trial within a trial, particularly in a forum which is not used to dealing with such issues, is quite undesirable.

5.29 The third situation involves doubtful patentability. If there were no trade secret protection, the inventor would have to apply for a patent, and take his chances on getting it. This is a slow, expensive business. If Patent Offices held to their present exacting standards, there would be large numbers of rejections (and appeals) and in the meantime society would be deprived of the use of those discoveries through trade secret licensing. Alternatively, Patent Offices could come under pressure to lower their standards to allow in a wider range of claims, or there could be pressure on legislation to expand the scope of the Patent Acts. In Canada, this later alternative is fraught with major constitutional implications, because it would involve a federal excursion into areas which the provinces would undoubtedly view as involving property and civil rights.

5.30 Cases of doubtful patentability are always difficult. It seems entirely speculative whether society would be better off attempting to push them all into a Patent Office. In economic terms society may be better off allowing immediate trade secret licencing and utilization of the secret for whatever they are worth.

5.31 A third major economic issue relates to the influence of intellectual and industrial property laws on the location of industry.[150] Most Canadian jurisdictions, are overtly espousing a policy of trying to attract high technology industries, such as micro-electronics or industries utilising genetic engineering.[151] Such industries are attractive because they do not depend upon large amounts of raw materials, need not be located close to particular markets because of minimal transport costs, and offer new employment opportunities. In the United States it is readily apparent that centres for research and manufacture of this kind are being located in such places as New England, the Carolinas, Colorado, Minnesota, and California, rather than the traditional manufacturing areas. It is significant that most of the jurisdictions which have reformed their trade secret laws in the United States have done so because of a perceived need to provide a responsive climate for such industries. In this sense, trade secret laws can form an instrument of social and economic policy, in much the same manner as taxation law has been used in the past.

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[150] This issue does not appear to have been raised in any court judgment. For a useful review of the issues see Givens, supra, note 139, partic., at pp. 330-360.

[151] See e.g. Proposals for an Industrial and Science Stragegy for Albertans, 1985 to 1990 (White Paper, Alta. Govt., 1984).

5.32 It is probably impossible to establish a precise linkage between such laws and the location and encouragement of industry, but international experience tends to bear out an intuitive response that such considerations are important to industry. For instance, when China recently opened its doors somewhat to Western enterprises, the question was immediately raised as to whether North American businesses would be prepared to divulge and transfer technology which could not be protected in a country which has no legal system in the North American sense, let alone a body of intellectual and industrial property law. Given that these new industries are just now being established, it seems likely that the ability of a company to protect its proprietary information is at least one factor which would be considered in establishing that industry.

d. Pragmatic Arguments for Trade Secret Protection

5.33 Different kinds of enterprises face different problems. Large high technology development firms employ many lawyers, all with sophisticated expertise in this subject area. Extensive strategy sessions are held to determine the best mode of protection of a particular development. Outside such entities, advice on the intricacies of this area of the law is difficult to come by, and expensive. Small firms tend to get on with the job of development without paying a great deal of attention to such issues. If trade secret protection was abolished, such firms might be disadvantaged. They would have to rely on contract law or the federal statutes for protection of their know how. The considerations evolved by Chancery Courts arose out of relatively small scale disputes, and not surprisingly most of the cases in the law reports involve cases of that kind. This may suggest that there should be a statutory fall back for small firms that have not the experience, expertise or wherewithall to settle the outcome in advance. This is of course, precisely the same argument that has been accepted elsewhere in the law, notably with respect to legislation relating to sale of goods.

5.34 There is also a complex set of factors having to do with the bureaucracy of the present statutory monopolies. Outside central Canada there are few experienced intellectual and industrial property practitioners. There is some evidence that the costs, delays and psychological "distance" of "dealing with Ottawa" discourage people in more remote areas from taking appropriate steps to protect themselves. Trade secret law affords such a person localized self help.

5.35 Finally, assuming that the arguments suggested earlier in this chapter for protection of trade secrets were not persuasive, presumably a revision of many areas of the law ought to follow. If protection of trade secrets were not a good thing why should it be possible to employ general doctrines of the law to achieve protection? The doctrine of breach of confidence might have to be abolished (at least with respect to trade secrets), the law as to employee covenants altered, the disclosure requirements of the Patent Act strengthened, and so on. Turning the legal clock back in this manner might not be impossible, but as an exercise in legal craftsmanship would be extremely difficult and co-ordination of such an effort seems difficult to envision. Moreover, given the historic inclination of Courts to protect trade secrets and the likely pressure on the bar from commercial interests to find ways around any revised laws, there is no guarantee that such a strategy would be successful. Quite likely the situation would become one of a rose by any other name. As only one instance, a tort of unfair competition could safely be predicted as becoming a likely candidate for development.

e. Countervailing Policy Considerations

5.36 Assuming that legal protection is accorded to trade secrets, there are two kinds of side effects which might arise and be a source of real concern. The first relates to the mobility of labour and the second to the free flow of information.

5.37 As to the mobility of labour, extensive protection of trade secrets might make it more difficult for a person to move from one job to another. This may be undesirable both from the personal point of view of that employee, and that of society. Knowledge and skills are diffused through society in part by just such employee relocations. Also, a kind of blackmail could take place, with an employee being unable to move for fear of retaliatory civil law suits. Trade secrets could conceivably become compressed into fewer and fewer hands, thus leading to monopolies of knowledge with respect to critical technology.[152]

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[152] There is some evidence that this sort of concentration of patents has already occurred. Kingston, note 139, supra, uses this as an argument for ex-ante, rather than ex-post, control of monopoly.

5.38 In relation to contractual covenants, as we have noted, the restraint of trade doctrine can be utilised to correct such abuses. However, if trade secret law is put on to a statutory basis, some method of limiting the potential for abuse as against employees would seem to be desirable.

5.39 As to the free flow of information there are two kinds of concerns. First, as the importance of information has come to be better appreciated in contemporary societies, a great deal of theoretical and empirical work has been undertaken in the disciplines of sociology, economics, communications science, and political science.[153] All of those studies emphasize the interactive character of information and knowledge and its importance, not just to technological progress, but for individual human development as well. The implications of those studies for law reformers would seem to be that legal impediments to the free flow of information should require distinct justification, and that each exception to the general norm should be granted only in sufficient, but no more than sufficient, terms.

5.40 Second, there may be some information which should never be legally protectable. Assume, for instance, that an eccentric scientist discovers a cure for cancer. He is also a recluse and dislikes publicity. He advises his colleagues that he has found the "cure", that it is in his private, unpublished papers, and can be released only on his death. His colleagues think the public interest requires immediate disclosure, and publish the results. Should there be a public interest defence which would override any claim to legal liability which would otherwise apply? As noted in chapter 3, under the doctrine of breach of confidence there is a defence of "just cause or excuse" although the exact parameters of that defence have caused much debate. It seems to us that as a matter of general principle, such a defence is important and should be maintained. Trade secrecy, even when granted, should not be absolute.

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[153] See Background Paper on Improper Interference with Computers and the Misappropriation of Commercial Information (Institute of Law Research and Reform, 1983).

f. Resolving the Various Policy Considerations

5.41 Is the law faced with an impasse in the form of several public policy objectives amongst which a choice must be made? In our view, the position is not that stark. The creation and open transmission of ideas and information is, or should be, a cornerstone of Canadian society. Nevertheless, in particular kinds of cases the law may need to restrict the availability of some kinds of information. Such restrictions should be rigorously scrutinized, and allowed only where a compelling case is made out. Even in such cases, the protection granted should be sufficient, but no more than sufficient, having regard to the rationale for the exception. Finally, because the facts of a given case can never be predicted in advance, the protection granted by the law should not be absolute, but should be defeasible if there is some other over-riding public interest, which would defeat the public interest in the protection of the information.

5.42 In the last analysis, the arguments for legal protection of trade secrets come very close together. They amount to a recognition that everyone who generates valuable information has a legitimate interest in turning it to account. The notion - often expressed by judges - that what should be prohibited is "free rider" behaviour, seems to us to encapsulate the various moral and economic arguments on which the interest rests. At the same time, the law should not allow recognition of that interest to unduly hinder employee mobility or the free flow of information in society. What is involved is, therefore, an adjustment of relevant interests, rather than a preference as between them. Seen in this light, the problem of trade secrets is *sui generis*. That is, it involves recognition of an interest which rests on its own particular considerations.

CHAPTER 6

MEANS: SHOULD TRADE SECRETS BE PROTECTED BY THE CIVIL LAW, THE CRIMINAL LAW OR BOTH?

a. Introduction

6.1 In Chapter 5 we posed the general issue, on what rationale(s), if at all, should the law protect trade secrets? If the public policy grounds there suggested _for_ trade secret protection are accepted, there then arises a further important matter of policy, _viz_; should both the civil law _and_ the criminal law be employed to further that general objective?

6.2 Historically, the position in Canada and countries which follow the common law tradition, has been to resist the incursion of the criminal law into the broad area of intellectual and industrial property law. That is not to say that there have not in fact been _some_ criminal sanctions employed. But, as a general proposition it has been felt that the kinds of issues which arise in these cases are best left to civil courts. Traditionally, even where events have occurred which might be unlawful under a criminal law provision, it has been difficult to persuade prosecutors to "get involved" in the case.

6.3 There appear to be several reasons for this traditional standpoint, although it is difficult to ascribe more weight to any one factor rather than another. First, there is the force of tradition itself. Second, there is the sense that what is truly at stake in a given case is an adjustment of interests in a rather context specific way. The civil law, it is argued, can handle cases of this kind in a way that the criminal law cannot. The criminal law requires a more black and white answer. Third, there is genuine ambivalence in the commercial community on this whole issue. In interviews with industry personnel it became clear to us that industry on the one hand wants "strong measures" applied--but not to it. In the oil and gas industry, for instance, where close monitoring of intelligence about competitors has long been an industry commonplace, the attitude appears very much to be that espionage is at least marginally respectable, and that if the spy is caught, recompense will have to be made, but that the activity is not "truly criminal." However, the strength of this feeling may well vary from one industry to another. In the computer industry, for instance, there is strong industry-wide antipathy to "pirating" of software and sharp demands for strict laws. Fourth, historical experience suggests that even where criminal law provisions exist, they are not relied upon to any great extent in practice. Fifth, at least in a corporate setting, there are problems of apportionment of responsibility as between individuals and the particular business entity.

6.4 On the other hand, Canadian judges, on the evidence of the cases reviewed in Chapter 5, appear to be sympathetic to the employment of the criminal law in this subject area, and at least some commentators are of a like mind.[154] It is therefore appropriate that we examine this issue in more depth. In so doing, we reserve until a later chapter the issue of the precise form criminal law intervention might take.

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[154] See e.g. Moskoff, "Theft of Thoughts: The Realities of 1984" (1985) 27 Crim. L.Q. 226.

b. Arguments for Criminal Law Protection

6.5 We have noted that the competitive edge in many (if not most) businesses is today derived from innovation. This, in and of itself, creates the problem.

> [T]he need to remain technologically competitive has made industrial theft an attractive alternative to expending funds for research; and research has produced an ever more sophisticated array of technical devices to facilitate theft. Moreover, with the introduction of the computer, the ease of misappropriation combined with the potentially enormous value of a compact body of information has added immensely to the incentives for industrial espionage. Both the rewards from industrial espionage and the means to engage therein have thus reached an unprecedented level.[155]

6.6 We have also noted[156] that, as presently conceived, the policies which underpin the development of Canadian criminal law are that the conduct in issue should be subject to criminal sanctions only if:

(a) that conduct causes or threatens serious harm to individuals or society; and

(b) other social means are not adequate to control that conduct.

6.7 Against this background, there are three principal arguments that suggest that criminal provisions are necessary. First, civil remedies are inadequate to deal with certain types of misappropriation. Second, civil remedies have a limited reach in certain kinds of cases. Third, there may be resource problems for plaintiffs in civil cases.

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[155] Note, "Theft of Trade Secrets: The Need for a Statutory Solution" (1972) 120 U. Pa. L. Rev. 378, at p. 378.

[156] Chap. 4, supra.

(1) The inadequacy of civil remedies

6.8 The argument here is that the more egregious acts of piracy require the punitive character of a criminal sanction to indicate social reprobation and to deter people from dishonest conduct.

6.9 Current statutory and common law provisions in Canada do not provide the necessary punitive element. While the Patent Act and the Copyright Act both contain penal provisions, neither statute deals in any comprehensive manner with trade secrets. Moreover, the policies underlying these areas of intellectual property law limit the ability of statutory amendments to effectively proscribe the more reprehensible types of misappropriation.

6.10 Nor is the common law adequate to cope with the problem. In the past, awards of damages in a civil suit have contained a punitive element permitting the plaintiff to recover an additional sum in those cases in which the defendant's conduct was particularly offensive.[157] However, the emphasis in awarding damages is on compensation. In the result, the unsuccessful defendant in a suit for misappropriation of trade secrets is frequently no worse off than if there had been no theft.[158] The decision by a firm to misappropriate a trade secret thus becomes a business decision about the most efficient and economical method of acquiring the information represented by the secret. Faced with a financial calculation that balances the cost of misappropriation and the possibility of a damage award against either the required licence fee or the necessary expenditure on research and development, considerations of commercial morality become irrelevant.

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[157] See Telex Corporation v. I.B.M., 510 F. 2d. 894. The Tenth Circuit Court of Appeals held that the trial court did not abuse its discretion in awarding $1,000,000 in punitive damages where Telex misappropriated the trade secrets of I.B.M. resulting in a loss of $7,500,000 to I.B.M. and the unjust enrichment of Telex of approximately $10,000,000. See, in Canada, 57134 Manitoba Ltd. v. Palmer (1985) 30 B.L.R. 121, 143 (B.C.S.C.).

6.11 In this context, criminalization of misappropriation of trade secrets would provide a method of punishing the offender to the degree warranted by his or her conduct. The criminal law would also act as a deterrent.[159] Were the criminal law to apply, and senior officers be put at risk of terms of imprisonment, the decision to misappropriate a trade secret would involve more than an accounting decision to be carried out after a financial calculation.[160]

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[158] See Roberts v. Sears, Roebuck and Co., 573 F. 2d 976 (7th Cir. 1978), on remand, 471 F. Supp. 372 (N.D. 11 1979), vacated, 617 F. 2d 460 (7th Cir.), cert. denied, 449 U.S. 975 (1980), rehearing denied 449 U.S. 1105 (1981) where Sears appropriated an invention developed by Roberts, one of its employees. A jury awarded Roberts $1,000,000 for his invention. It was estimated that Sears made a profit of $44,000,000 from the misappropriation. This case is discussed in Hofer, supra note 13.

[159] An American Task Force on Computer Crime requested that respondents rank various means of preventing and deterring computer crime in terms of their effectiveness. The top ranked items were: (1) more comprehensive and effective self-protection by private business; (2) education of users concerning vulnerabilities of computer usage; and (3) more severe penalties in federal and state criminal statutes. Fifty-eight per cent of the respondents indicated they would strongly support the passage of a federal computer crime statute. (Report on Computer Crime, note 25, supra at xii).

[160] See Glasbeek, "Why Corporate Deviance is not Treated as a

6.12 Recent changes in the nature of the work place have increased the opportunities for misappropriation. Employees no longer remain with one company for life. Especially in high technology firms, they change jobs frequently. At the same time, large staffs and the inability to supervise employees closely have undermined the ability of employers to control the disclosure of information and correspondingly accentuated the opportunity of selling information without being identified. In the face of these difficulties of detection and enforcement, Kitch[161] has suggested that misappropriation of trade secrets is a logical area for the use of strong criminal penalties. In particular he argues that since the number of detectable thefts is small, misappropriation of trade secrets can only be effectively deterred if heavy penalties are imposed on those thieves who are caught.

6.13 The necessity of having stronger penalties to deal with extraordinary acts was recognized by the Swedish Commission on the Protection of Trade Secrets. The Commission felt that generally misuse of trade secrets in commercial relationships should be addressed via damages and/or injunctions. However, it felt that more serious penalties were required in extraordinary cases. The Commission thus proposed that a person who intentionally and without authorization exploited or disclosed a trade secret received in confidence in a bidding procedure, commercial negotiation or other business relationship should be

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[160] (cont'd) Crime--The Need to Make 'Profits' A Dirty Word" (1984) 22 Osgoode Hall L.J. 393.

[161] Supra n. 135 at 692.

liable for criminal penalties.[162]

(2) The inadequate reach of the civil law remedies

6.14 The second principal argument for the use of the criminal law arises from the limited reach of civil remedies. In particular, civil remedies may well be useless with respect to companies that are judgment-proof or of foreign origin.

> A civil injunction will have meaning against a trade secret thief only if he is engaged as well in an otherwise legitimate business at a fixed location ... . The mobile industrial spy, assuming one can affect service of process, will receive the injunction with as much amusement as a safecracker who is told he must henceforth desist from plying his trade. Even if damages are awarded, the ultimate buyer of the secret might not be found, and the mobile industrial spy is likely to be judgment-proof. And if either the thief or the firm that hired him is foreign, personal jurisdiction will be difficult to obtain.[163]

6.15 In these circumstances, the criminal law may be the only effective response. It circumvents the utilization of unfunded companies to misappropriate trade secrets by allowing the individual responsible for the theft to be charged. Criminal legislation will facilitate the extradition of international thieves and enable the courts to reach behind the corporate vehicle to reach the responsible individual.

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[162] See Annex to Tersmeden, OECD/ICCP Ad Hoc Meeting on Computer-related Criminality: Some Notes with regard to the Swedish Position, 15 February 1984 at 27-28.

[163] Supra, note 155 at 398. Nelson and Wolfe, "Tightening the White Collar: The Criminalization of Trade Secret Theft" (1977), 14 Am. Crim. L. Rev. 797 at 807 relate the story of Dr. Robert Aries who misappropriated pharmaceutical trade secrets from three companies. Aries watched from Europe as judgments totalling more than $21,000,000 were awarded against some of his companies. His companies were nearly insolvent.

(3) The costs of enforcement

6.16 Not all firms and individuals have the same resources. A criminal prosecution may relieve a firm of the financial burden of investigation and resultant proceedings in a given case. Whilst it is true that this does involve an outlay of additional resources by the state, the benefit of the protection enforced by the state is in part at least societal, and the protection may be particularly significant to small firms who have recently entered the market or have limited resources.

c. Arguments Against Criminal Law Protection

6.17 There are three principle arguments against criminalization of misappropriation. The first argument suggests that the business world (or some elements of it) may not want criminal protection. According to this view, the criminal law is perceived to be defective since it lacks appropriate remedies, denies the owners of the trade secret control of the process and is governed by Crown prosecutors who are generalists and lack the necessary expertise to prosecute a charge of criminal misappropriation. The small number of prosecutions in the United States under theft of trade secret provisions[164] is cited as evidence that such statutes are unnecessary. Anything that is done to "improve" the criminal law is, on this view, a waste of time.

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[164] See Annotation, "Criminal Liability for Misappropriation of Trade Secrets" 84 A.L.R. (3d) 967.

6.18 The second argument against enacting criminal provisions relates to the difficult problem of determining, and articulating, the conduct that should be subjected to liability for the misappropriation of trade secrets. A particular instance of this problem concerns the ex-employee who must distinguish non-disclosable information from his ordinary knowledge and skills. The civil courts have wrestled with the problem of distinguishing between the general information in a trade and trade secrets. The problem is no less intractable with respect to the criminal law, and the consequences significantly more serious. The inability to articulate at what point the line should be drawn suggests that, rather than subjecting every departing employee to the risk of prosecution for trade secret theft, no provision should be enacted.

6.19 The final argument against criminalization asserts that any penal provision will transfer the costs of disputes over private rights to the public purse. It will in many cases be cheaper for a company to initiate a public prosecution than to conduct its own civil litigation.

d. Conclusion

6.20 The best evidence of the need for criminal provisions would be statistical data indicating the magnitude of the problem. Even without such definitive evidence however, the case for new provisions dealing with misappropriation seems compelling. The force of the arguments against criminal protection is recognized. However those arguments do not justify a complete refusal to enact criminal provisions, but rather only warrant a cautious approach to the drafting of the new offences.

The anomalous protection accorded by current provisions and the inability of the civil law to reach foreign or judgment-proof defendants in particular argue for comprehensive criminal sanctions.

CHAPTER 7

TRADE SECRETS AND LEGAL CONCEPTS

a. Introduction

7.1 Assuming that legal protection is to be afforded a trade secret, some conceptual basis has then to be evolved upon which such an action can be mounted or conduct criminalised, as the case may be. Just how difficult this kind of exercise is, can be seen from the (now) long standing debate over the "true" basis of the action for a breach of confidence[165] and the debate in the United States, prior to the evolution of the Uniform Trade Secrets Act.[166]

7.2 The fundamental problem is that what is at issue is, in many cases, not a tangible object but rather intangible information. Attempts to fit "information" of any kind into existing legal categorizations have proved extremely difficult. This might suggest either that "information" is not a term that lends itself to the precision usually required for legal concepts and analysis or that attempts to employ conventional categorizations will not be particularly helpful in information related disputes.

7.3 In this chapter we outline the possible bases on which protection of information might, as a matter of legal theory, rest. The difficulties which arise stem from the nature of information itself, and do not arise because of any peculiar characteristics of trade secrets, which simply represent a particular kind of information.

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[165] See generally, Gurry, note 78 supra, at pp. 25-58.

[166] See Milgrim, note 8 supra.

b. A "Property" Approach to Information

7.4 On a functional level, the statement that "Y is X's property", has two important effects. First, it confers on X the right to exclude others from the normal uses to which property is put. That is, if Y _is_ X's, X is given the exclusive right to use Y, to appropriate returns from Y, and the right to change Y's form.

7.5 But there are two critical points to be noted here. First, the statement that Y belongs to X does not tell us _why_ that is so. That is, the term "property" is conclusory. It states a result rather than explaining why Y _is_ X's. Second, the mere fact that the law may recognize Y as "belonging" to X does not end the matter.

7.6 It may have been true at one time that property was conceived as an absolute dominion over a "thing".[167] But that conception is not now even remotely credible. Ownership is not today conceived in an unrestricted way, but is hedged about with all kinds of social imperatives. Thus, if Y is real property, X may be faced with a series of regulatory restrictions as to the use which he may make of Y.

7.7 The second major functional effect of the statement "Y is X's property" is that it normally triggers a chain of incidents. For instance, it is a general principle of Canadian civil law that a person who purchases property bona fide and for value, is protected with respect to that purchase even as against an honest "true" owner. The statement that "Y is X's" triggers that, and many other, consequences. In the criminal law, that statement, if applied to information could trigger a whole series of offences.[168] In short, the term "property" for legal purposes attracts to itself a good deal of baggage.

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[167] See Vandevelde, "The New Property of the Nineteenth Century: The Development of the Modern Concept of Property" (1980) 29 Buff. L. Rev. 325.

7.8 The proposition that information--even confidential information--is or should be "property" for legal purposes seems to us to involve difficulties at both a technical level, and in the effects which such a proposition would--without more--give rise to.

7.9 As to the technical problems it has been pointed out that information does not fit well with even extended concepts of property:

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[168] The classification of information as "property" for the purposes of s. 283 (theft) suggests that other sections of the Criminal Code relating to offences against property may also be applicable. These include: s. 27 (Use of force to prevent commission of offence); s. 38 (Defence of movable property); s. 39 (Defence with claim of right); s. 52 (Sabotage); s. 176 (Common nuisance); s. 186 (Betting, pool-selling, book-making, etc.); s. 232 (Interfering with transportation facilities); s. 288 (Theft by or from person having special property or interest); s. 289 (Theft - Husband or wife); s. 291 (Theft by person holding power of attorney); s. 302 (Robbery and Extortion); s. 312 (Possession of property obtained by crime); s. 315 (Bringing into Canada property obtained by crime); s. 317 (Evidence; s. 318 (Evidence of previous conviction); s. 320 (False pretence or false statement); s. 331 (Threatening letters and phone calls); s. 338 (Fraud); s. 350 (Disposal of property to defraud creditors); s. 361 (Personation with intent); s. 380 (Criminal breach of contract); s. 381 (Intimidation); s. 449 (Arrest without warrant by any person); s. 517 (Ownership; s. 552 (Trial of persons jointly for having in possession); s. 616 (Restitution of property); s. 653 (Compensation for loss of property); s. 654 (Compensation to bona fide purchasers); s. 665 (Order for restitution of property); and s. 745 (Sureties to keep the peace).

> First, sole ownership is vastly complicated in the case of information. The act of theft is often impossible to detect and difficult to prove. A piece of information can be "owned" by two people at the same time without any denial of the conventional benefits of ownership. Second, some kinds of information can be infinitely multiplied at low cost. Third, information generally does not depreciate with use and some kinds of information of a theoretical character actually inflate in value with usage. Fourth, unused information is, in general, of no use but the moment information is used it reveals both its existence and content and may actually enter what is conventionally referred to as a "public domain". Fifth, the creation of information is routinely a joint activity and the apportionment of "creativity" is then rendered extraordinarily difficult. ... Eighth, in economic terms, public goods are separated from private goods by a principle of exclusion. Although the principle can still apply to information, it is routinely invoked only at a considerable cost.[169]

7.10 As to the effects which such a proposition would involve, they include the possibility that ideas as such might become appropriable, that monopoly stockpiling of ideas and information would be possible, (and hence create a need for ex-post corrective measures of some kind) and that employee mobility could well be hindered. It is our firm view--a view which was shared by the Parliamentary Committee on Computer Crime--that the proposition that information per se is or should be treated as property should be rejected.

7.11 The matter does not end there however. It is possible that particular kinds of information can and should, under carefully controlled conditions, be treated as a proprietary interest. In our discussions and consultations we encountered wide-spread support for our conclusion that information per se should not be treated as property. A number of commentators suggested however that a trade secret was a sufficiently closely defined economic interest to warrant treatment as a proprietary interest. A trade secret, on this view, is as much an asset as any other asset, and ought to be treated as such. It was further suggested that the arguments against treating information as property either do not apply to a trade secret, or apply with much less force. For instance, an employer has a legitimate interest in protecting his investment in innovation vis-a-vis an employee. We accept this general proposition. It does not however follow that all the usual incidents of a proprietary interest should attach to this particular asset.

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[169] Hammond, note 136, supra, at p. 54.

c. "Relationship" Approaches to Information

7.12 Another way of approaching the whole question of rights to information is to focus on the relationship between the holder of information and the person who actually uses it. Thus, if the user had expressly or impliedly undertaken not to use that information, a court could find a breach of that relationship. The duty not to misappropriate then arises, not from any intrinsic qualities in the information itself, but from the relationship between the parties.

7.13 This is in fact the conceptual basis which most Commonwealth, and many U.S. judges have approached civil cases to date. The difficulties with the approach are apparent in what has been said of the existing law. There may not be a "pre-existing relationship" into which the facts can be fitted. Further, this conceptual approach would be quite inappropriate to the criminal law, which does not enjoy the luxury of a range of potential relationships.

d. An "Entitlement" Approach to Information

7.14 This approach is not dependent upon the pre-existing categories of the law.[170] It would involve asking two questions: First, what are the reasons for deciding that particular people are or are not entitled to particular kinds of information? Those reasons will involve considerations such as economic efficiency, moral values, distributional preferences within a given society and diverse humanistic reasons. Second, after deciding who is entitled to certain kinds of information, the question of enforcing that entitlement must be answered. It would then be necessary to give the entitlement the strength and remedies thought appropriate. The incidents which attach to that entitlement then become, as should be the case, a matter for close attention.

7.15 This approach is the one we prefer. First, it looks first to the particular interest at stake and considers it in light of the particular values and ends the law seeks to uphold. The kinds of remedies that contribute to the achievement of those ends are then considered.

7.16 This approach is particularly useful in constructing legislation, and has been followed in many areas of the law (including copyright and privacy legislation). Consider personal information about an individual in the hands of the government. The individual's right to privacy suggests that the individual should be entitled to control both the use of personal data by the government and the government's disclosure of personal information. Neither of these rights can be regarded as absolute, but must be viewed in light of competing governmental interests, e.g. the interest in national security. A balance between the individual's right to privacy and competing government interests is needed. Thus the federal government, in recognizing the individual's interest in controlling the disclosure and use of personal data, did not simply assert that the individual has a property right in personal data held by the government. Rather it established, through the Privacy Act,[171] an elaborate scheme to balance these competing interests. The scheme established, while appropriate to deal with the problem of personal information in the hands of the government, is not suited to commercial information because different interests are involved.

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[170] The term "entitlement" has been borrowed from Calabresis' famous essay,"Property Rules, Liability Rules and Inalienability Rules: One View of the Cathedral" (1972) 85 Harv. L. Rev. 1089.

e. Conclusion

7.17 The conceptual battles of the past have not resolved the questions which have arisen in this subject area. Moreover, by their very nature they have (in some cases) imposed a strait-jacket on the law (and in others) given rise to convoluted reasoning as judges have sought to bring the facts of a given case within the existing conceptual vehicles.

7.18 This subject-area, in our view, is best addressed by the entitlement approach--a specific identification of the interest at stake, and an appropriate range of remedies and incidents.

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[171] S.C. 1980-81-82-83, c. 111 (Schedule II).

PART II - CIVIL LAW REFORM

CHAPTER 8

INTRODUCTORY NOTE

8.1 If it is accepted first, that civil law protection of trade secrets is desirable, and second, that the countervailing policies set out in Chapter 5 must also be accommodated, the next question becomes one of legal technique.

8.2 This general issue itself has three distinct difficulties. First, how is this complex set of objectives to be turned into a workable legal formula? Second, is this task best performed by Legislatures or the Courts? Third, given that we have reached a view that both civil law and criminal law reform is necessary, there is a clear case, so far as it can reasonably and practicably be achieved, for evolving definitions that will serve for both civil and criminal law.

8.3 As to these questions, this Part approaches civil law reform in three sub-sets. First, in Chapter 9 we canvass the issue of judicial development of the law versus legislation. Second, in Chapter 10 we first outline in a broad way certain propositions which we think should be reflected in a reformed body of civil law for the protection of trade secrets. We then consider in more detail how those propositions might be translated into legislation, and various problems which would be involved in such an undertaking.

CHAPTER 9

A LEGISLATIVE SOLUTION?

a. Introduction

9.1 We noted in Chapter 1 that law reform agencies in New Zealand, England, the United States and Scotland have considered this subject-area. The first three agencies implicitly accepted the case for legal protection for trade secrets. The New Zealand Committee was content to leave the development of the existing law to the judges. The Law Commission and the U.S. Uniformity Commissioners on the other hand recommended legislative development of the law. The Scottish Commission adopted a neutral position.

9.2 Our central concern in this Chapter is, against a backdrop of what has been done elsewhere, to isolate those factors which would support or negate the proposition that this area of the law is best left entirely to the Judges. And, if legislation is desireable in Canada, what should the general character of that legislation be? A re-arrangement and development of the existing law, or something else?

b. The Arguments against Judicial Development

9.3 Several points may be made about the New Zealand approach. First, that Report was written in 1973. A decade ago the micro-electronic revolution was just beginning. In those circumstances it is perhaps not surprising that that Committee found that "misappropriation of confidential information by means of technical surveillance devices is [not] a problem in [New

Zealand]."[172] There is evidence that such activities do occur in Canada today and hence the development of the law involves more immediacy.

9.4 Second, the New Zealand Committee thought that "the existing actions at common law and equity provide a satisfactory remedy in those cases outside the patent system where protection is desirable," and that "the courts have shown a willingness to develop the equitable principles relating to breach of confidence".[173] However, it seems clear enough from the more recent, exhaustive study of the existing case law and literature carried out by the Law Commission and our review of events since that Report was prepared that this confidence was over optimistic. There is still no clear industrial espionage tort, or its functional analogue. There are still many gaps and uncertainties in the law. This sometimes happens with judicial development of a particular area of the law. Judges have to decide specific disputes on the basis of the authorities put before them, as and when they arise. Nor are Judges responsible for the health of the system as a whole. Some refinement of doctrine has taken place. What appears to be needed now is not refinement so much as the re-arrangement of the law in a coherent fashion. Much of the learning in the existing case law can be carried forward, but it seems inevitable that judicial development of the law in this area will be too slow, and lacks comprehensiveness.

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[172] Note 4, supra at p. 19.

[173] Note 172, supra, at p. 17.

9.5 Third, New Zealand is a unitary jurisdiction. In a federal system there are dangers of fragmentation of case law doctrine as between different jurisdictions. Although there is no evidence that this has occurred in Canada to date, this was a factor the U.S. Uniformity Commissioners took into account in recommending legislation and a Uniform Act.

9.6 Fourth, we have argued that issues of entitlement to particular kinds of information raise critical questions of public policy. Those kinds of issues should involve broad guidance from government.

c. The Arguments Against a Legislative Solution

9.7 The difficulty with legislation in this subject area is, we think, of another kind. Legislation in areas dealing with technology can become outmoded very quickly. This has in fact occurred in Canada with respect to the federal copyright and telecommunications legislation. The fact that legal obsolescence can and does occur is not however an argument against legislation *per se*. It is an argument for devoting sufficient legislative resources to matters which have a great deal to do with contemporary socio-economic issues. The answer to concerns about legislation becoming "outmoded" or "too rigid" is therefore twofold: First, legislation should avoid, so far as is possible, definitions or provisions which are technology bound. Second, if, notwithstanding this endeavour, obsolescence does occur it is the legislature's responsibility to attend to the matter by way of amendments or further legislation.[174]

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[174] For an argument that legislatures can *never* respond quickly enough to the present technology induced problems, see Rosen, "A Common Law for the Ages of Intellectual Property"

d. Resolving these Arguments

9.8 We favour legislative development of the law for the reasons outlined above. That is perhaps the most radical proposal in our Report. We have also, in reaching that conclusion, consulted as widely as is possible within the bounds of an exercise of this kind. Although some thoroughly responsible members of the Bar argued that the Judiciary are gradually solving many of the problems we have identified, and that legislation is not therefore required at all, we, and a clear majority of those we consulted, are of the view that the time has come for legislative intervention in this subject area, and for its rationalization in a more systematic manner. And, since in the result what we will propose hereafter are certain new statutory remedies which do not displace the existing common law or equity, the ability of the Courts to develop judge-made law as and when may be appropriate will not be disturbed.

9.9 Hence, although a legislative solution may at first blush appear "radical", that term would much over-state the effect of our recommendations. Much of the existing learning can be carried forward, and it seems to us that it ought to be, and is, possible to build a statutory framework that does not reject the learning of the past, and yet preserves some flexibility for the future.

9.10 We are to some extent fortified in this view by the views expressed by the Scottish Law Commission in its recent report on Breach of Confidence.[175] This Report appeared after

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[174](cont'd) (1984) 38 U. Miami Law Rev. 769.

[175] See n. 5, supra.

our initial consultations and enabled us to "test" our views. Having identified the possibilities as being those of leaving matters entirely to the Judges, or developing a statutory code, or evolving a statutory framework "on which the Courts can build by indicating the general direction in which the law should develop",[176] that Commission indicated that it was not in favour of a Code. It felt that the choice lies between doing nothing (i.e. leaving matters entirely to the Judges), or a statutory framework falling short of a Code.

9.11 In the result, the Commission was extremely cautious as to the choice between these two strategies. It stated: "We have reached no concluded view on which of these courses is the more desirable. To some extent the choice depends upon political judgments on matters of great sensitivity and public importance. What is, for example, the correct balance between the interests in confidentiality and the interests in freedom of information? Would legislation, however carefully framed, tip the balance too much one way or the other? These are not questions which it would be appropriate for us to answer".[177] The Commission was, however, clear that if there was to be legislation it "should provide principles flexible enough to accommodate changes in public attitudes and to take account of scientific and technical developments." It considered that "excessively detailed legislation is much more likely to have a stultifying effect on the development of the law and may rapidly become obsolete".[178] So far as the general character of prospective legislation is concerned, we are in complete agreement with this view.

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[176] See, n. 5, supra, para. 3.7.

[177] Note 5, supra, para. 3.10.

[178] See, Note 5 supra, para. 3.11.

e. The Subject Matter to be Covered by Legislation

9.12 The matter does not end with a decision to legislate. Assuming legislation of that general character, there is the critical question of the general field to be covered by a legislative solution.

9.13 Both the Law Commission and the U.S. Uniformity Commissioners concluded that the most satisfactory basis for law reform was the articulation of a statutory tort. There is however a critical difference between the two approaches. The Law Commission's proposals extend to every kind of confidential information. The U.S. Model Act is restricted to trade secrets.[179]

9.14 We find ourselves in sympathy with the American approach. The Law Commission has attempted to develop the existing case law relating to breach of confidence, and thus to accommodate within one legal formula such diverse situations as marital secrets,[180] cabinet secrets[181] and trade secrets. It has therefore tried to construct a formula as to when any confidence not protected by contract is to receive legal protection. Our difficulty with that approach is that we think both the reasons why the law should protect secrets or confidences, and the extent to which it should do so, may vary from one subject area to another. For instance, it is quite likely that many members of society would argue for absolute protection of marital confidences. Whether such protection should be granted would presumably turn on considerations of the current concept of marriage, its purposes in society and so on. Other people would contend for some kinds of exceptions to such a rule. Likewise, many politicians would doubtless argue strenuously for absolute protection of cabinet material, in the interests of full and free cabinet discussions. Other people would insist on particular exemptions. In short, different kinds of situations would seem to raise differing information entitlements and exceptions.

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[179] In the United States personal confidences are protected by an emerging tort of breach of confidence, (See "Note: Breach of Confidence: An Emerging Tort" (1982) 82 Col. Law Rev. 1426) and the law relating to privacy.

[180] See e.g. Argyll v. Argyll [1967] Ch. 302.

[181] See e.g. Attorney-General v. Jonathon Cape [1976] Q.B. 752.

9.15 Our second reason for preferring the American position concerns the state of the law relating to privacy. The Law Commission was in part following up on the Younger Committees suggestion that the action for breach of confidence can assist the protection of privacy interests. As a general proposition, however, in both Canada and the United States, privacy already receives much stronger legal protection than in the United Kingdom.[182] There is therefore no need to "stretch" the concept of a breach of confidence in North America.

9.16 Our third reason concerns the over-all development of intellectual and industrial property law in North America. Generally speaking, there has been a historic bias in the British Commonwealth in following the thrust of English law unless there are sound "local" reasons for some other course being adopted. This gives Commonwealth jurisprudence a certain degree of unity.

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[182] See note 54, supra. See also Burns, "Law and Privacy: The Canadian Experience" (1976) 54 Can. Bar Rev. 1; and Seipp, "English Judicial Recognition of a Right to Privacy" (1983) 3 Oxford J. Legal Studies 325.

This bias has not however been operative in the intellectual and industrial property arena. The Canadian and U.S. Patent Acts are relatively similar, and are both based on the first to invent philosophy. By the time the revision of the Canadian Copyright legislation is complete, it is likely that an updated Canadian Act will have borrowed a good deal from the 1976 U.S. Act.[183] United Kingdom intellectual and industrial property legislation differs in a number of important respects from the North American legislation. Also the U.K. is faced with the difficulty of harmonising its law with E.E.C. law.[184] The similarity between the patent and copyright legislation in Canada and the U.S. is desirable and useful because of the overlap in commerce between the two countries. Many companies operate on both sides of the border. The Canadian intellectual and industrial property bar is familiar with the U.S. legislation and case law, and Canadian Patent Office examiners quite frequently resort to U.S. case law for guidance where there is no Canadian precedent. Canadian lawyers not infrequently resort to U.S. copyright decisions in technology related matters. All of this seems sensible and desirable given the commercial relations between the two countries. As a matter of systems architecture, when considering the future direction of trade secret law, it would seem useful that there should be a broadly similar approach between Canada and the U.S. This reasoning in no way, of course, diminishes the critical necessity to find a solution which fits Canada's particular situation regardless of developments in other jurisdictions.

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[183] Public Law 94-553, 94th Congress, 90 Stat. 2541.

[184] See generally, Cornish note 26, _supra_.

9.17 In the result we think an approach which addresses specific information entitlements is more appropriate to Canada's particular circumstances than is one which would provide an all-embracing solution. We therefore propose to confine our recommendations to trade secrets.

CHAPTER 10

RECOMMENDATIONS FOR CIVIL LAW REFORM

a. The General Character of Our Recommendations

10.1 It may be useful, before discussing the details of our proposals for reform, to outline here the broad framework which we recommend.

10.2 We think Canadian civil law with respect to trade secrets should reflect certain major premises:

(1) If there is a legally enforceable agreement as to how particular kinds of trade secrets are to be treated, the law should respect that agreement.

(2) If there is no agreement, the law should recognize, by means of a statutory tort or torts a duty to respect trade secrets in specified situations.

(3) The term "trade secret" should, for this purpose, be defined in such a way that it will catch all four categories of information described in Chapter two.

(4) The law must state with reasonable precision at what point appropriation of information within those categories becomes misappropriation.

(5) The law should provide a non-hierarchical range of remedies for misappropriation of a trade secret. A

court should be able to select that remedy (or, if need be, those remedies) which are most appropriate in a particular case.

(6) A court should be given an over-riding discretion to refuse relief where some other public interest outweighs the public and private interest in preserving the trade secret.

(7) Such other civil remedies as there may be with respect to the improper use of information should not be displaced.

(8) The law relating to the protection of trade secrets should, if possible, be uniform throughout Canada.

Each of these propositions is examined in detail in succeeding sections of this Chapter.

10.3 As to the form in which such premises should be reflected, we have indicated in earlier chapters our view that a statute which sets out a framework, but not excessively detailed rules, should be evolved.

b. The Relationship of Trade Secrets and Contract Law

10.4 The foregoing premises distinguish between consensual (contract) and imposed (tort) obligations. It would be possible, in theory, to collapse those two categories, and to provide a single statutory formula for protection of trade secrets. This issue has provoked divergent views in law reform agencies.

10.5 The U.S. Uniformity Commissioners thought that there should be a single statutory formula. Both contract and tort case law would be subsumed into a new statutory tort. The issue was, however, clouded somewhat by the draftsmanship of the Uniform Act, and commentators had difficulty in deciphering whether covenants as to trade secrecy were in fact subsumed by the Act or not.[185] Subsequently, some States expressly excluded contract cases from the operation of the legislation.[186] The English Law Commission on the other hand thought that contract duties and non-contractual obligations of confidence should continue to exist as concurrent bases of liability.[187]

10.6 Neither the U.S. Commissioners nor the Law Commission appear to have articulated reasons for their preferences. We prefer concurrent liability. In principle, we think the law should at least allow, and perhaps encourage, citizens to settle their own terms between themselves. The law should, in general, provide a fall-back position. It is less authoritarian, and more in accord with normal commercial usage to allow citizens to strike such arrangements as they see fit.

10.7 The possible objections to this solution fall under two heads: inequality of bargaining power or the procedural difficulties that such a course might create. As to the first, it is conceivable that an employer might seek to impose quite draconian terms on a prospective employee, as to who shall control information evolved during that employment. Contract law, however, already deals with unconscionable bargains in various ways. For instance, if the employer tried to enforce such a covenant in the form of a negative injunction preventing the employee from subsequently working for somebody else, an injunction might well be refused under the court's discretionary jurisdiction, or the covenant might be struck down altogether as being in restraint of trade.

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[185] See Klitzke, "The Uniform Trade Secrets Act" (1980) 64 Marq. L. Rev. 277; Milgrim, note 8, supra.

[186] Milgrim, note 8, supra; and see also Joseph E. Root III and Guy M. Blynn, "Abondoment of Common-Law Principles: The North Carolina Trade Secrets Protection Act" (1982) 18 Wake Forest Law Rev. 823.

[187] See note 5, supra, para. 6.127. The Scottish Law Commission seems to have been of a similar view. See note 5, supra, para. 2.3 et seq.

10.8 As to the procedural problems, allowing a claim both in contract and under some other head of liability (such as a statutory duty or equity) could create limitations anomalies. Plaintiffs will struggle to bring a claim within a head of liability where the relevant limitation period does not apply. However, this is the present position and there is no evidence in the cases that it has caused problems in this particular subject-area.

c. A Statutory Tort or Torts

10.9 Both the U.S. Uniformity Commissioners and the Law Commission thought that if there was to be a new basis of liability for misappropriation of a trade secret, it should rest on a statutory tort.[188] As a matter of general principle, we agree. Approaching the matter in this manner avoids the present sterile, and ultimately unfruitful, debate over the proper doctrinal basis of an action for misappropriation of trade secrets. The creation of a new statutory tort or torts involves the articulation of the interests sought to be adjusted, the identification of that point or points at which appropriation becomes misappropriation, the reduction of those matters to a statutory formula, and the provision of a suitable range of remedies.

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[188] Vaver, note 81, supra, suggests that the Law Commission really recommended two new torts - one going to non-contractual undertakings to treat information confidentially (see cl. 3, L.C. draft Bill); the other to improper acquisition of information (see cl. 5, L.C. draft Bill).

10.10 As to the elements of any new torts, we discuss that topic under head e, infra. The adoption of a statutory tort as the basis for a claim does, however, have certain other consequences. The normal tort rules as to remoteness, causation, remedies and the like will apply unless they are specifically modified by statute.

d. The Definition of a Trade Secret

10.11 It is probably impossible to arrive at an intrinsic definition of a trade secret. The potential subject-matter is limitless. We have emphasized the importance of avoiding technology bound definitions. The alternative is to move to a more functional description of the requisite elements of a trade secret. This is the course which U.S. legislators have taken, and is the approach we recommend.

10.12 Nevertheless, whilst we would prefer to adopt a functional approach to the definition of a trade secret, the actual wording to be adopted has given us some concern. It may be useful to set out here the manner in which definitions have evolved in the U.S., and elsewhere, before we indicate our thinking.

10.13 The First Restatement of Torts (1939) provided:

> Section 757. LIABILITY FOR DISCLOSURE OR USE OF ANOTHER'S TRADE SECRET-GENERAL PRINCIPLE.
>
> One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if
>
> (a) he discovered the secret by improper means, or
>
> (b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or
>
> (c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person's disclosure of it was otherwise a breach of his duty to the other, or
>
> (d) he learned the secret with notice of the facts that it was a secret and that its disclosure was made to him by mistake.

The section did not define a trade secret, but comment (b) to that section has been very widely cited by courts throughout the U.S. and acquired almost the same standing as section 757 itself. This comment stated: "A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it."[189] However it is clear that the framers of section 757 intended to limit the potential operation of the comment somewhat because they also suggested: "A trade secret is a process or device for continuous use in the operation of a business.[190]

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[189] Restatement of the Law - Torts (1939), p. 5.

[190] Id.

10.14 Under the U.S. Uniform Act a trade secret is defined thus:

> "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
>
> (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
>
> (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

10.15 This definition contains two important limitations. First, the information must have some actual or potential economic value to other persons. Economic value will usually relate to the gaining of a competitive advantage. However this definition would also comprehend that persons who are not presently competitors can be misappropriators. The reason for this is that even negative information that certain approaches are commercially infeasible may be of economic value.

10.16 The second limitation relates to secrecy and "reasonable" efforts to maintain that secrecy. It would obviously be economically wasteful to require the maximum protection against disclosure. The pragmatic reality is that secrecy is a matter of degree. The possessor or the information, if he says it is valuable, should be required to protect it. The means and extent of protection will vary with the circumstances of the particular case, in the context of a particular trade or industry.

10.17 To restrict the Uniform Act definition any further would probably require the use of a concept that the information must be "novel" or an "advance in the art." A restriction of that kind would bring trade secret protection into the kind of difficulties that have beset patent law. The use of such a concept would also probably require the use of an independent agency - the analogue of the patent examiner - to establish novelty.

10.18 The only attempt of which we are aware to draft a definition of a trade secret in the British Commonwealth was in Sir Edward (now Lord) Boyle's Industrial Information Bill of 1968, which defined "industrial information" as including:

> Unregistered or incomplete patent, trade mark, or design information, know-how, research and technical data, formulae, calculations, drawings, results, conclusions, costings, price structures, contracts, lists of suppliers or customers and private business discussions, or memoranda of the same.

The Younger Committee reduced that shopping list to more concise form: "the improper acquisition for gain of valuable industrial or commercial information.[191]

10.19 The term "trade secret" appears in various freedom of information statutes, in the common law world but is not there defined. The statutory language uses terms like "financial, commercial, scientific or technical information ... that is confidential (the Canadian federal statute) or "confidential information [going to] competitive commercial activities" (the New Zealand statute).

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[191] Cmnd. 5012, para. 479. There are more than fifty federal statutes in Canada which restrict the availability of various kinds of information. See Appendix A to Background Paper on Improper Interference with Computers and the Misappropriation of Commercial Information (I.L.R.R. 1983).

10.20 We are of the view that the following elements should be incorporated into the definition of a trade secret. First, what is at stake is a particular class of information, which is or might be used in a business or trade. We think this information should be very widely defined to include such things as formulas, patterns, methods, techniques or processes, and any tangible object embodying those things. That is, the protection should extend to the knowledge itself, and any formal embodiment of that knowledge. Thus a secret computer program in firmware form (i.e. burned into a solid silicon chip) would be protected. One member of the Federal/Provincial Working Party felt that trade secret protection should not include any work which is protected by copyright and which is published within the meaning of the Copyright Act in Canada or in any other country.

10.21 Second, the term "information" should be limited in the following ways. The information should be limited to something that is, or may be used in a trade or business. It should not be generally known. That is, the information should have some economic value deriving from the fact that it is not generally known (as opposed to not being known within an identified trade or business). The appropriate benchmark is simply that the information must not be devoid of value. It should have some economic value to somebody which derives from the fact that that information is not generally known.

Otherwise, why protect it?

10.22 The person who claims to be entitled to the benefit of the information should also be required to take steps that are reasonable under the circumstances to maintain the secrecy of the information at issue. We contemplate by that requirement that these circumstances may well vary, but, in general include sensible, effective, and affirmative steps to safeguard that which is said to be of commercial value. Hence, if a major technology company claims that the secret, draft concept for a new super computer has been stolen, it may not be enough to establish merely that employees were told that this draft was a trade secret. It may be quite appropriate in such a case to suggest that a much more effective security system should have been put in place and enforced.[192]

10.23 We have been concerned throughout this exercise to avoid giving any greater coverage to a trade secret protection statute than is warranted by the legitimate interests of the business community. To do otherwise would be to cut into what we regard as a cardinal principle - an open system of ideas and information. It was for this reason that we introduced words of limitation ("trade or business") into our definition that do not appear in the U.S. Uniform Act. It was suggested that this might cause difficulty vis-a-vis "pure" research institutions and universities in that a secret development *may* have no commercial function in contemplation. It is plausible--and doubtless occasionally happens--that a researcher conceives and begins to develop something (which is kept secret) without any thought or reference to commercial application. The reason for the secrecy is then likely to be either scientific caution or scientific pride (a desire to be first past the post). But if such a researcher (or his institution) can show even some potentiality of business use, the definition would apply, and that researcher would get protection, whatever the original motivation for the secrecy may have been.

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[192] U.S. Courts have been quite rigorous in their scrutiny of the steps taken by companies. A high standard has been required. See the first case to reach a State Supreme Court (*Electro-Craft* v. *Controlled Motion, Inc.*, 332 N.W. 2d 890 (Minn. S.C. 1983) and Garry, "The Relationship Between Employment Agreements and Trade Secret Litigation in Minnesota: The Evolution of Trade Secret Law from Cherue to Electro-Craft" (1985) 11 William Mitchell L. Rev. 501.

e. The Elements of the Torts

10.24 All the law reform agencies which have attempted the creation of new statutory torts have remarked on the conceptual difficulties involved in that exercise. The U.S. Commissioners eventually evolved a scheme which attempted to make actionable the disclosure or use of a trade secret acquired by improper means. A terse definition of improper means was provided. The North Carolina legislature, in a significant non-uniform amendment,[193] went much further, and made actionable the acquisition disclosure or use of a trade secret where the consent of the holder of that trade secret had not been acquired. The Law Commission would have made actionable a breach of an undertaking to treat information confidentially and the improper acquisition of information. "Improper acquisition", for this purpose was defined at some length, although the acts proscribed would all appear to be encompassed by the much shorter U.S. Uniform Act definition.

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[193] See N.C. Gen. Stat. ss. 66-152 to 157 (Supp. 1981). See also Note, 60 N.C.L. Rev. 1238 (1982) and Root, note 186, supra. The statute provides: "'Misappropriation' means acquisition, disclosure or use of another without express or implied authority or consent ..."

10.25 In its Report for Discussion #1, the Alberta Institute of Law Research and Reform canvassed these various approaches and noted that, at bottom, they involved focussing either on the relationship between parties (and artificially extending it by law in the case of espionage) or an assertion (in the case of North Carolina) that a trade secret is a full blown property interest. The Institute reserved its views as to which approach might be most appropriate until it had the benefit of consultation and further reflection based on the material unearthed in the course of its research.

10.26 With the benefit of further consideration by both the Institute and this Working Party, and the consultative process, we are now of the view - which is shared by the Institute - that an attempt to create a single tort of misappropriation by improper means or through lack of consent, is not the best solution.

10.27 Our view is that what is (properly) objected to by a plaintiff falls into one (or both) of two categories. First, there is the possibility that a trade secret was improperly acquired. Second, there is the possibility that a trade secret may be disclosed or used by somebody who knows or ought to have known that he or she does not have lawful authority to disclose or use it in the manner in which he in fact does so. In short, we are of the view that how the trade secret is acquired involves one kind of harm, and that what happens to a trade secret once it is in the hands of somebody other than the lawful holder involves another kind of harm. There are, in our view, compelling reasons for the law to, on the one hand, put in place a prophylactic measure against outright business piracy; and on the other, to give a trade secret holder a significant control device over the actual use of a trade secret in the hands of another person.[194]

10.28 We therefore recommend the creation of two torts. The first would make actionable the acquisition of a trade secret by improper means. The word acquisition is intended to be given a fair large and liberal construction. It means a "getting" or "gaining" in any way. For instance, looking at a computer printout and memorising data would be within our view of what ought to be encompassed by the breadth of the term.

10.29 We have devoted a great deal of time to the question of whether there should be a definition of "improper means". In the result we recommend leaving the term relatively open ended, subject only to this: We think the statute should specifically state that independent development and reverse engineering do not constitute improper means. We also think the statute should specifically state that commercial espionage by any means is improper. Outside those specific directions we think the Courts should be left to handle the cases as they arise. Some persuasive guidance can be obtained from the many cases decided under the Restatement provisions and even the case law in those American States which have adopted the Uniform Act. But more importantly, we think that the term "improper means" is the kind of concept courts are well used to dealing with in tort and equity litigation. We are confident that the Courts will grasp the purpose of the legislation--particularly if it is plainly and pointedly drafted, and will give effect to its fundamental rationale. The term is also not technology bound.

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[194] One member of the Federal/Provincial Working Party suggested that the purpose of a statutory scheme such as we propose should be solely to protect the integrity of a trade secret, but should not regulate the legitimate use of a trade secret. Thus, it was argued, if A hands B a computer programme with an explicit restriction as to the basis on which it may be used, and B uses it for some other purpose, A has a sufficient remedy in contract. Further, it was said, that addressing the "use" of a trade secret in the manner suggested amounts to creating a general licensing law which involves different policy considerations. This member also felt that liability for the good faith acquisition, disclosure or use of a trade secret which is of the nature of an innovation, e.g. a specific product secret or technological secret as opposed to strategic business information, should exist only if the relevant act occurred within seventeen years of the date of the creation of the information.

10.30 The second tort would require that a person other than the originator of a trade secret must be in a position to demonstrate lawful authority to his disclosure or use of that trade secret. We again intend that the term lawful authority should be given a fair large and liberal construction. That authority might most obviously and routinely be found in an express written consent (as in a license agreement), but it might also be found, for instance, in a course of dealings, which may constitute an estoppel.

10.31 In recommending this second tort as so conceived, we paid particular attention to two problems. First, such a tort creates no real problems in a single transaction between A and B. It can however have serious consequences in a chain transaction. C may purchase from B, not knowing that B did not have lawful authority to disclose further. We have endeavoured to overcome this kind of problem in our recommendations for certain relief which would be made available to third parties.

10.32 The second problem is related to this concern. We were much concerned as to whether we might be placing too high a burden on the person who deals with a trade secret holder to ascertain the legalities of his doing. If inventor x appears at the door of company y, cap in hand, and offering to "sell" trade secret z, what is y to do? A tort of the kind we propose puts y on enquiry, but we are of the view that this is not a bad thing. It should make trading in purloined secrets more difficult, and again the adjustment provisions vis-a-vis third parties which we propose could come into play.

10.33 There are certain collateral advantages to the two torts as so conceived. We have been much troubled, in reviewing the legislation evolved elsewhere, as to its complexity. We see no reason to foist unnecessary complexity on a judge or jury. We are strongly of the view that relatively straight forward expression of the relevant concerns is likely to be much more effective than over-refined drafting.

10.34 At the end of the day, as the Alberta Institute of Law Research and Reform noted in its Report for Discussion #1, what is at stake is the achieving of an appropriate balance between competing interests. In our view, formulations of the kind recommended afford understandable and useable vehicles within which that balance can and should be realized. They speak directly to the relevant concerns we have identified.

f. Remedies

(1) The Range of Remedies

10.35 Assuming that a misappropriation of a trade secret has taken place, what relief should be available to a plaintiff? We think that there should be a range of remedies which can be tailored to fit the circumstances of the particular case. There are however some difficulties both with respect to particular remedies and the relationship between remedies which require some elaboration.

(i) Injunctions

10.36 Traditionally, the injunction has been the prime remedy in this area of the law. There is a major difficulty with respect to the term of a permanent injunction. What if a court has granted an injunction in support of a secret, but that secret has now somehow come into the public domain? Is the defendant still to be subject to the injunction even though the world at large now knows the secret? In other words, is the defendant to remain forever at a disadvantage? Anglo-Canadian courts have not definitively settled this issue. One answer given by some courts in the U.S. is that a perpetual disadvantage is the price of transgression. Other courts have permitted the modification or discharge of the injunction when the secret becomes public knowledge.[195] We think the guiding principle should be that, in general, the fact that a secret has become public should lead to the injunction being set aside. However, there may be cases where the defendant will enjoy a residual advantage if the injunction is set aside immediately the secret becomes public. For instance, it may take several months for other parties to get production lines established. A defendant should not be enabled to take advantage of that profit by a head start.

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[195] One line of cases is known as the Shellmar rule; another as the Conmar rule. See Jager, Trade Secrets Law (1983) at p. 134 and Barclay, "Trade Secrets: How Long Should an Injunction Last?" (1978) 26 U.C.L.A. L. Rev. 203.

(ii) Compensatory damages and account of profits

10.37 Damages are compensatory. That remedy is, in general terms, calculated looking to the position the plaintiff would have been in, had the incident complained of not occurred. An account of profits on the other hand establishes what the defendant actually made as a result of his unlawful activities, and restores that sum to the plaintiff. The two sums will usually be different. These remedies are usually thought of as alternative ways of calculating a sum of money to be paid by a defendant to a plaintiff. It has been the general practice of Commonwealth courts to require a plaintiff to elect between an award of damages or an account of profits. There are, however, some statutory exceptions to this rule. For instance, under the Canadian Copyright Act both remedies may be awarded concurrently.[196] For many years now, American courts have rejected the election rule even where there is no statutory right to both remedies. The present Canadian case law does not settle this issue. What should the position be with respect to trade secret cases?

10.38 The origin of the two remedies differs. Damages were a common law remedy, an account was a Chancery remedy. After Lord Cairns' Act[197] the argument arose that a tortfeasor could not have both damages and an account because by electing an account he was "condoning the infringment." That is, he was treated as saying to a defendant, "you shall be treated in equity as having done this work on my behalf." There seems however to be no reason today in either theory or justice why a plaintiff should not today have both remedies, provided no double recovery occurs, and that is the policy we recommend.[188] We are particularly influenced by the fact that this modification has already been made in copyright law in Canada.

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[196] See Copyright Act, s. 20(4).

[197] 21 & 22 Vict. c. 27 (1858).

(iii) Exemplary damages

10.39 In England, and several other Commonwealth countries, exemplary damages are a severely restricted remedy. The leading authority in England is the decision of the House of Lords in Rookes v. Barnard,[189] which creates certain categories of cases in which such damages may be awarded. There is, in England, presently no authority as to whether exemplary damages may be awarded for a breach of confidence. The difficulty is that breach of confidence is an equitable doctrine and the ability of an equity court to award exemplary damages at all is doubtful. Rookes v. Barnard did recognise as one exception to the general rule of non-availability of exemplary damages a "deliberate infringement of a plaintiff's rights where the profit is calculated by the defendant to outweigh the possible damages payable." This exception would apply in tort in England.

10.40 Canadian courts have not followed Rookes v. Barnard. Exemplary damages have been awarded in a much wider range of cases in Canada than in England. There are Canadian cases in which awards of exemplary damages have been made in claims of breaches of ficuciary duty with respect to trade secrets.[200]

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[188] See Vaver, note 81, supra.

[189] [1964] A.C. 1129.

10.41 We think the existing Canadian law should be preserved for two reasons. First, as a general approach, we do not wish to disturb remedies at law or in equity where the law is settled unless there are compelling reasons for so doing. Second, as a matter of principle, it seems to us that exemplary damages may be necessary to discourage free rider behaviour. This is particularly so since the Canadian Criminal Code does not presently recognise any offence of theft of trade secrets, and the existence of an offence of theft of information is still under appeal to the Supreme Court. There should be some means of a court expressing disapproval of a particularly flagrant misappropriation. Otherwise, as the House of Lords recognized in Rookes, there is a real chance that potential defendants will calculate their likely liability and trade that off against gains likely to be made. The prescience of the House of Lords was subsequently demonstrated by the facts of the well known decision in Cassell v. Broome.[201] We think this remedy should be available even if new criminal offences are created.

(iv) Royalties and adjustments

10.42 Anglo-Canadian courts presently have power to grant damages in addition to or in lieu of an injunction. To date, that power has not been exercised in trade secret cases by ordering a defendant to make a periodic payment in the form of a royalty to the plaintiff in liew of an injunction. U.S. courts have been asserting a power of this kind for many years.

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[200] See e.g. Schauenberg Industries Ltd. v. Borowski (1979) 101 D.L.R. (3d) 701; 25 O.R. (2d) 737; and see also Pro Arts, Inc. v. Campus Crafts Holdings Ltd. (1980) 10 B.L.R. 1; and the cases in note 157, supra.

[201] [1972] A.C. 1027.

10.43 We think, as did the Law Commission,[202] that this kind of power should be "refined and developed"[203] so as to enable a court to make a wide range of adjustments as between the plaintiff and the defendant. Besides royalty payments in lieu of an injunction, a court should be able to order a defendant to meet the expenses incurred by a plaintiff in acquiring, developing or exploiting the trade secret and which are likely to be thrown away by the defendant's misappropriation.

(v) Delivery up and destruction orders

10.44 English and Canadian courts have for many years asserted the right to order a defendant to deliver up to a plaintiff or destroy any documents in which the confidential information appears. This remedy is usually ordered where a defendant is considered unreliable. We recommend that this remedy be preserved.

(vi) Ancillary relief

10.45 As a matter of caution, the legislation should provide that the normal powers of a court to exercise "incidental" relief are not diminished.

(2) Relief of Third Parties

10.46 The position of innocent acquirers of confidential information has, as we have noted, caused much concern under the existing law. The failure to evolve a widely agreed upon solution to his dilemma is one of the substantial reasons for urging law reform in this whole subject area. As Professor Cornish rightly observed, "It is here that doubts are thickest, and doctrinal differences headiest."[204] There are cases where the general law of tort could come into play: there may have been an inducement to breach a contract, or even an actionable conspiracy. But outside those sort of situations, the difficulty is fundamentally that if a non-direct recipient of a trade secret is ever to be liable it must be on one of two footings. In terms of traditional analysis it must be either because the secret is treated as the "property" of the true "owner", or because the court is somehow extending the obligation of good faith originally assumed by the first recipient. There could thus be a somewhat artifical extension of the good faith doctrine.

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[202] Note 5, supra, paras. 6.110-6.112.

[203] Id., p. 155.

10.47 Quite apart from the doctrinal difficulties involved in this general issue, we have felt that there are real value questions of some importance which cannot be resolved in a merely arid, technical way. If the third party is truly innocent (i.e. had absolutely no knowledge, and perhaps even gave value), it is fundamentally unjust to say - even by extension - that that party incurs liability. On the other hand, there is an interest we have said the law should protect.

10.48 We are of the view that trying to resolve this dilemma by reference to the existing doctrinal categories is pointless. The dilemma of the innocent third party is one the law has had to face before in other contexts. Some kind of adjusting formula has to be evolved.

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[204] Cornish, note 26, supra at p. 280.

10.49 In the trade secret context we think that the solution lies in creating, within the remedies provisions of a prospective statute, a "code within a code." That is, where a person in good faith acquires discloses or uses a trade secret, and subsequently learns that the person who was "truly" entitled to the benefit of the trade secret has "lost" that trade secret because of the activities of another person who used improper means to acquire it, or by mistake, a Court should have power to "adjust" the situation. Either the plaintiff or a defendant should be enabled to bring an action for a declaration of the rights of the parties. A Court should be directed to have regard to the fact that a trade secret is within the protective scheme of the Act, but that the Court should also weigh the consideration (if any) given by the third party, and whether that third party has changed his or her position in reliance upon rights he thought were properly acquired. Having weighed the equities, a court would then be enabled to "adjust" the position between the parties.

10.50 Thus, in a case where a third party acquires a trade secret in good faith, and for instance, utilizes that trade secret in a new assembly line process, and then, as production begins the true facts come to life, a Court under our proposal would review the knowledge (if any) the third party had of the true facts, the price it paid for the trade secret, and how far it had altered its position. In this case, a Court might well conclude that the appropriate solution was to require the third party to pay a royalty for the use of the trade secret. These cases involve an exercise in judgment--making the best of a bad situation, and in our view the critical design factor is that the Courts be given an appropriate range of powers to deal with them.

g. A "Public Interest" Defence

10.51 We have argued that without legal protection of trade secrets, there may be a disincentive for business to invest in technological development. That amounts to an assertion that the public interest requires that a particular privilege be accorded to private interests. But we also noted in Chapter 5 that we can conceive of cases where there may be a need to balance that public interest against the right of the public to have full and unimpeded access to certain kinds of information.

10.52 This problem has not been in issue in reported Canadian cases, but it has been considered by English courts on a number of occasions in relation to alleged breaches of confidence. As we noted in chapter 3, there is no dispute that under the holdings of those cases there is a defence of some kind which can be asserted by a defendant, the effect of which is to override or defeat the claim of breach of confidence. The precise basis of the defence has been the subject of much debate. It began life as a relatively narrow defence: that there is "no confidence in an iniquity" (i.e. a crime). Subsequently it was broadened to a defence of "just cause or excuse". The House of Lords has recently affirmed this extension and that it goes to "misconduct generally". Their Lordships did not however elaborate on the ultimate scope of this defence and clearly thought the matter should be dealt with on a case by case basis.[205]

10.53 Should reforming legislation preserve a defence of this kind? There seem to us to be two different situations to consider. It is possible that a trade secret might involve some kind of illegality. For instance, a trade secret recipe could conceivably include ingredients in a manner or some proportion not allowed by law. It seems quite wrong that, for instance, an investigative journalist should be exposed to civil liability for publishing these facts, although his potential liability for publication of "untrue" facts should not be watered down.

10.54 The second situation involves no illegality or reprehensible behaviour on the part of the trade secret originator. For one reason or another - most probably human idiosyncracy - the originator may decide to keep an important process secret and not use it at all. It seems wrong in principle that, for instance, a "cure" for cancer could be kept from mankind under a legal regime protecting trade secrets.[206] The great difficulty with this category of cases is that it is difficult to identify in the abstract all the relevant considerations which should influence such a defence. Doubtless these would include the manner in which the trade secret came into being; the nature of the trade secret; whether it had been "used" by its originator; if it had not, why there had been no usage; and the length of time the trade secret had existed.

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[205] British Steel Corporation v. Granada Television Ltd. [1980] 3 W.L.R. 774.

[206] But c/f Goff J. in Church of Scientology v. Kaufman [1973] R.P.C. 649. See also Lion Laboratories Ltd. v. Evans [1984] 2 All E.R. 417 (C.A.).

10.55 The Law Commission concluded that legislation should include a broad defence of public interest.[207] The Commission's proposals also affect the burden of proof. The defendant would be required to give notice that he intends to raise "the issue of public interest," and that there was "a public interest involved in the relevant disclosure or use of the information in question." Assuming the defendant discharges this burden, "it should be for the plaintiff to establish that his interest is outweighed by the public interest in [the protection of the confidence]."[208]

10.56 The Law Commission's proposals attracted strong criticism from many quarters. It was said that leaving such large issues of public policy to the courts was quite undesirable and that Parliament should be able to specify in more detail what kinds of things the public have a right to know.[209]

10.57 The Law Commission's difficulties arose because it was attempting to erect a legislative scheme to cover all confidences. Hence, many potentially controversial areas such as government confidences and personal confidences might be treated by the courts as being "disclosable" in an over-riding public interest. The proposals in this Report relate only to trade secrets. It seems to us much less objectionable that courts should be entitled to consider a particular public interest which may be suggested as overriding the requirement of trade secrecy in a particular case.

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[207] Note 5, supra, para. 6.77.

[208] Id. para. 6.84 (item v).

[209] See Jones, Note [1982] C.L.J. 40; Bryan, Note (1982) Pub. Law 188.

10.58 The only alternative to a public interest type defence would appear to be reliance upon the general discretion of the court with respect to the various specific remedies. For instance, if a newspaper "steals" and publishes a secret formula to prevent the common cold, a court might conceivably, in its discretion, refuse to grant an injunction restraining publication. U.S. courts have not recognized an explicit public interest defence, but the arguments with respect to an overriding public interest do seem to be reflected in the choice of remedy in some cases. Likewise, a defendant could, at least with respect to equitable remedies, invoke the plaintiff's lack of "clean hands" in some cases as a ground for refusing relief.

10.59 We are of the view that, at least in relation to trade secrets, there should be a limited form of public interest defence. We think that it should apply where the trade secret is tainted by crime, fraud or other unlawful conduct, or involves some matter going to public health and safety. We do not, however, believe that illegal means should be used to acquire a trade secret. The law should not condone illegality in the name of some other public good. The rule of law is the rule of law. The net result of our proposal would be, in a Watergate type situation, that the acquisition of the trade secret by a break-in would not be condoned, but there may be a proper case for the public knowing what was found as a result of the illegal activity.

10.60 Such a defence probably leaves untouched only the situation where for some peculiar reason a plaintiff does not presently wish to "work" a presently viable trade secret.

However allowing the defence in such a case does come close to the analogue of a compulsory license under a patent regime, and we do not think this desireable. A compulsory licence is recognized in the patent regime because the inventor has an absolute monopoly: if he doesn't work that privilege, somebody else should be (on terms) entitled to. A trade secret is a highly qualified legal interest, which falls well short of the patent monopoly.

h. The Preservation of Other Causes of Action

10.61 One of the major premises on which this Report rests is that trade secrets have become a sufficiently important subject-area in their own right to warrant specific legal legal treatment. But what should be the relationship between the new statutory torts we have proposed, and other civil causes of action? We have said that contract law should not be displaced or altered. But what of other tort actions, and the various equity doctrines, in particular the action for breach of confidence?

10.62 We have no difficulty with the notion that there will often potentially be concurrent causes of action in a trade secret case. The "fact" that, for instance, somebody is in breach of both a contract and a fiduciary duty is not we think a matter of real concern. That phenomenon is now relatively common in civil actions, with plaintiffs pleading several different causes of action. Sometimes technical or remedial issues are created, but the phenomenon of one set of facts supporting several heads of liability is not at all new, and is widely accepted in our civil law. We recommend therefore that other tort and equity doctrines not be displaced. That is, the new statutory torts would, be additional causes of action. The existing common law and equity should not be displaced in any way.

10.63 In reaching this conclusion we were particularly concerned as to whether we should recommend the abolition of the action for breach of confidence, (at least so far as it could overlap with trade secrets within the meaning of our foregoing recommendations). The relevant considerations here would seem to be these. On the one hand, if we are to propose a new trade secret regime, it could be argued that that is "sufficient", that the doctrine of breach of confidence is no longer "needed" in this subject-area and can be statutorily excluded. Moreover, it is possible that a Judge could allow a claim in breach of confidence to run more widely than our deliberately limited trade secret torts, and thereby "end-run" those torts. On the other hand, it is not appropriate that we should recommend abolishing the action for breach of confidence altogether, since it undoubtedly forms a useful and proper function elsewhere in the law. We could of course, as the Alberta Institute of Law Research and Reform recommended in its Report for Discussion #1, suggest that the proposed Act not disturb existing legal or equitable doctrine except with respect to those fact situations which come within the Act. This recommendation was supported by a minority of the members of the Federal/Provincial Working Party.

10.64 There was a concensus that the various causes of action other than the doctrine of breach of confidence should not be displaced. On the question of whether that cause of action should be displaced (at least with respect to trade secrets as defined in the proposed legislation) the majority favoured leaving that action intact. It was felt that it was unnecessary and perhaps unwise to disturb the ability of Judges to develop the common law and equity, and that if something is done to reform this particular cause of action, it should go to the whole area of the law of confidences. In the result, the proposed legislation should not displace any of the existing civil causes of action.

i. Preservation of Secrecy

10.65 The holder of a trade secret will have legitimate concerns about the protection of that secret when litigation is commenced. First, at the interlocutory stage of the proceedings there may be requests for details of the trade secret. It is even conceivable that proceedings may be commenced as a "fishing" action rather than a genuine claim. Second, if a trial is necessary, the usual rule is that there should be a public hearing. In theory, therefore, a rival who is not already a party to the proceedings could sit in on the trial and learn the secret. How far, if at all, should the prospective statute address these issues?

10.66 As to interlocutory matters, it seems to us that the existing Rules of Court and practice provide adequate safeguards. In both patent and trade secret cases the usual rule is that where the process is claimed as being secret, the court will allow discovery only on terms that there be no further disclosure or use of the information to the prejudice of the patent or trade secret holder. There is also good authority for the proposition that there is an implied undertaking by one to whom documents are produced not to use them for any collateral or ulterior purpose. The court can also order than a transcript be sealed.[210]

10.67 As to the trial itself, courts have sometimes ordered that all or part of the hearing be held in camera. To protect information at the conclusion of a hearing, a transcript can be ordered to be sealed.[211]

10.68 The general principle which appears to underpin all these rules and decisions is that a court presently has authority to control the conditions under which the trade secret is produced for the purposes of, and dealt with in, the course of litigation. We think that it may be useful - if only as a matter of legal convenience - to confirm that authority in the prospective statute and to provide judges with a range of alternative measures which, on application, the court might adopt to protect the trade secret during both the interlocutory stages of the case and the hearing itself. The list should not, however, be conclusive.

j. Limitation of Actions

10.69 Under the present law in the Canadian common law provinces, the relevant limitation periods provide that an action must be commenced within six years from the breach of contract[212] or, in the case of a breach of confidence, within six years from the discovery of the cause of action.[213] If no specific limitation period were provided in the proposed legislation, the relevant limitation period would be six years after the cause of action arose.[214]

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[210] See as typical examples, on these points, in Alberta, Rule 186(1), 186(2); 200(1) and 215(2) of the Alberta Rules of Court and the authorities set out in Stevenson & Cote, Alberta Rules of Court (Annotated), pp. 208(k), 229(H 33), and 251. Other jurisdictions appear to have similar rules.

[211] American-Can Dev. Corporation v. Teletime Saver (1973) 1 C.P.C. 130. (Ont. H.C.).

10.70 We think an appropriate limitation period for this tort would be two years from the date the claimant knew or ought to have known of a basis for the claim. Alternatively, a jurisdiction could substitute whatever period may be appropriate for its circumstances. The only downside of varying rules might arise in conflict cases.

k. Contributory Negligence

10.71 There may be a question as to whether contributory negligence statutes[215] would, or should, apply to the new torts. Our view is that, assuming for the purpose of discussion that such statutes might apply, if the tort is to be constituted on a misappropriation by improper means or by an unconsented to disclosure or use (as the case may be), and if the claimant must, as a pre-condition of relief have taken reasonable steps to safeguard the secret, then it is appropriate to exclude the operation of the contributory negligence act.

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[212] See e.g. R.S.A. 1980, Chap. L-5, s. 4(1)(c).

[213] Id., s. 4(1)(e).

[214] Id., s. 4(1)(g).

[215] See e.g. in Alberta, Contributory Negligence Act, R.S.A. 1980 Chap. C-23.

l. Assignability of Rights

10.72 There has recently been a suggestion by at least one Commonwealth appellate court that trade secret rights are not assignable. It has also been suggested that this decision overlooked prior authority.[216] Whatever the true position may be, we think the commercial consequences of rights of this kind not being assignable would be quite bizarre. We have argued that there _is_ a valuable interest at stake. We think the matter should be put beyond doubt, and that the legislation should specifically provide for the assignability of the interest in a trade secret.

m. Uniformity

10.73 The provinces have jurisdiction with respect to property and civil rights. In theory, therefore, each province could decide for itself what, if any, civil cause of action there should be for misappropriation of trade secrets. At present, because such cases are decided on principles of law of general application which are recognized in all the common law provinces there is _de facto_ uniformity of law in this subject area.

10.74 We think that uniformity of law in this subject-area is desirable and should be maintained if at all possible. First, there is a legal convenience factor. If each province had a different law, knowing what the law is becomes more difficult, and complex conflicts of law problems are created in some cases. Further, the litigated cases thrown up in one jurisdiction become helpful authority in other jurisdictions. Second, there is commercial convenience. Businesses and individuals might well have to engage in some re-assessment of their business planning if the law is more favourable to them in one locality than another. Third, since technology licencing also has international aspects, it may be important for non-Canadian parties to such agreements to be able to deal with Canadians interests with some confidence as to Canadian law in this area.

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[216] See note 90, _supra_.

10.75 We should also note, in this connection, that it is our view that the pith and substance of the draft Act attached to this Report falls squarely within s. 92(13) of the Constitution Act, 1867 and would therefore be constitutionally valid if enacted by any province.

PART III - CRIMINAL LAW REFORM

CHAPTER 11

INTRODUCTORY NOTE

11.01 In the preceding chapters we have developed the arguments for and against the use of the criminal law to protect trade secrets. Our conclusion, based on the propositions that: (i) the legal protection of trade secrets is, in general, a desirable objective for the law to pursue; and (ii) the civil law does not, and by its nature cannot, provide an adequate response to all cases of misappropriation; is that the criminal law should intervene, in carefully defined circumstances, to proscribe the misappropriation of trade secrets.

11.02 We have also indicated our preference, in Chapter 7, for reform of the law of trade secrets based on what we have termed an "entitlement" approach. The countervailing societal interests in freedom of information and mobility of labour suggest that any criminal offence should be "customized" to respond precisely to the conditions that warrant the use of the criminal law. Only the entitlement approach appears able to provide a response that is, on the one hand, sufficiently comprehensive to encompass a broad range of morally reprehensible behaviour, but on the other hand is sensitive to the competing policy considerations.

11.03 This Part approaches reform of the criminal law in two steps. First, Chapter 12 canvasses the criminal law reforms of other jurisdictions. The question of criminal misappropriation of trade secrets has not received the same considered analysis as has civil misappropriation. Thus in Chapter 12 we seek to identify the approaches utilized by other jurisdictions, and through analysis of particular pieces of legislation, to identify the issues that must be addressed in any proposals for reform of Canadian criminal law. Second, Chapter Thirteen discusses the form of our proposed criminal legislation. We first indicate the general character of our recommendations, then discuss the proposed legislation in more detail.

CHAPTER 12

CRIMINAL LAW REFORM

IN OTHER JURISDICTIONS

a. Introduction

12.01 We noted in Chapter 1 that the question of whether to accord legal protection to trade secrets faces all technologically advanced jurisdictions. Equally, such countries are confronted with the same arguments for and against providing criminal penalities for the misappropriation of trade secrets as arise in Canada. In this chapter, we describe the responses of different jurisdictions. We briefly review the contradictory recommendations of two commonwealth countries before examining the law reforms that have occurred in the United States.

12.02 Our focus throughout this chapter is on criminal prohibitions against the misappropriation of trade secrets.[217] Canada,[218] and many American states[219] have enacted specific penal provisions directed against unauthorized access to or tampering with data stored in computer systems that may incidentally provide some legal protection for trade secrets. However, these sanctions, as they apply to trade secrets, like the availability of general theft provisions to proscribe the removal of tangible objects embodying trade secrets, deal only with particular means of misappropriation. They do not provide a comprehensive response to the problem of misappropriation and will not therefore be further discussed.

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[217] The chapter does not examine the protection available to trade secrets under the offences of general application of other jurisdictions, e.g. the National Stolen Property Act 18 U.S.C. s. 2314, enacted by the federal government in the United States pursuant to its power to legislate in respect of interstate commerce, proscribes the interstate transportation of "goods, wares [or] merchandise" of the value of $5000 or more "knowing the same to have been stolen, converted or taken by fraud ... ." The act has been invoked against thefts of trade secrets: see Annotation, "Criminal Liability for Misappropriation of Trade Secrets", 84 A.L.R. 3d 967.

[218] Criminal Law Amendment Act, 1985, S.C. 1984, c. 19, s. 46 and s. 58.

[219] See for example Fla. Stat. Ann. s. 815.02 (West Supp. 1978).

b. The Commonwealth Response

12.03 No Commonwealth country has enacted specialist provisions applicable to misappropriation of trade secrets. What protection is to be had must be found under each jurisdiction's offences of general application. The possibility of specialist criminal sanctions has been discussed, albeit briefly, in two of the law reform studies referred to in paragraphs 1.14 and 1.15 above.

12.04 The Younger Committee on Privacy in the United Kingdom[220] recognized that civil protection for the misuse of confidential information might be appropriate, but rejected the creation of any new offence of theft of information, even in limited circumstances. In the context of commercial information it stated:

> The main difficulty in considering the acquisition of industrial and commercial information is in deciding where to draw the line between methods which consist of the painstaking and legitimate gathering of business information and those which the law should treat as illegal. Most people would agree that it is part of the normal function of an efficient businessman to be

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[220] Note 6, supra.

> well-informed on his competitor's products, prices, sales promotion methods and so forth; and most people would agree that it would be quite wrong for him to steal his rival's test samples or suborn his employees; but there are grey areas.
>
> The suggestion put to us that the theft of information should be made an offence bristles with difficulties. In the first place, the owner of the information is not deprived of it when it is stolen, which, as we have explained ... is an essential element of the crime of theft. The owner would still have it, but it would be of less or perhaps even no use to him. In the second place, the sort of information which it is suggested should be recognized by law as susceptible of theft would have to be very carefully defined, as would the circumstances of theft. Otherwise the freedom of communication would be imperilled.[221]

In the result, the Law Commission[222] did not address the criminal misappropriation of trade secrets or confidential business information.

12.06 In contradistinction, the Torts and General Law Reform Committee of New Zealand felt that the chief weakness of the then existing law of trade secrets was the lack of criminal provisions to deal with certain types of misappropriation. The Committee stated:

> It cannot be denied that the formulation of such an offence would be far from simple. The information covered would have to be defined with the degree of precision appropriate to the framing of a fairly serious criminal offence, as would the circumstances constituting theft or misappropriation. Care would have to be taken that the protection conferred was not so wide as to cut across the patent system and encourage inventors to keep their inventions secret. Regard would also have to

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[221] Note 6, supra, p. 149.

[222] Note 5, supra.

> be paid to the principle of freedom of communication in an open society ... . However, we take the view that the creation of such an offence could well represent a desirable strengthening of the law, assuming that the difficulties of the kind we have touched upn can be satisfactorily overcome.[223]

However, no such criminal offence has as yet been enacted in New Zealand.

12.07 More significant than either the contradictory recommendations of the two studies or the lack of legislative action is the fact that the same problem areas are identified in each report: both recognize that due regard for the principle of freedom of communication requires a careful definition of the information to be protected and the conduct to be proscribed.

c. The American Approach

12.08 Law reform in this subject area in the United States was prompted by a rash of highly-publicized thefts of pharmaceutical trade secrets in the early 1960's. Individual states, who under the American system have legislative authority in criminal law matters, responded to concerns about the applicability of offences of general application to trade secret thefts by amending their criminal law. New York became the first state to do so in 1964 when it amended its larceny statute to include within "property" that could be the subject of larceny, tangible objects embodying trade secrets.[224] The following year New Jersey, rather than merely including trade secrets within the definition of property for the purposes of theft, enacted a separate section dealing specifically with trade secrets.[225] The New Jersey provision sought to address the intangible nature of trade secrets by defining a trade secret to include any scientific or technical information which is secret and of value, then proscribing particular conduct in relation thereto.

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[223] Note 4, supra, p. 18.

[224] New York Penal Code s. 1296(4), McKinney's Session Laws, 1964, p. 1161. This legislation is discussed briefly in Fetterley, Note 22, supra, p. 1536.

12.09 In the intervening two decades, at least twenty-seven other states[226] have made express provision for trade secrets in their criminal legislation.[227] The information that is protected and the conduct that is proscribed vary widely from state to state, reflecting the different conclusions reached on questions of policy by individual states. In the remaining parts of this chapter we analyze certain differences between the sanctions that have been enacted, intending to illustrate thereby some of the issues requiring consideration as part of the Canadian process of criminal law reform.

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[225] N.J. Rev. Stat. 2A: 119-51 (Cumm. Supp. 1965). New Jersey has since replaced this provision with new legislation: N.J. Stat. Ann. 2C:20-1 - 20-3 (West 1982).

[226] In addition Missouri, which does not otherwise separately proscribe the misappropriation of trade secrets, has expressly included trade secrets under its criminal offence, "Tampering with Intellectual Property": Mo. Ann. Stat. s. 569.095 (Vernon Supp. 1983).

[227] We have not been able to update the statutes of the twenty-nine states (altogether) that have previously amended their criminal legislation to make express provision for the misappropriation of trade secrets. We have been unable to verify that all such provisions are currently in force, or have not been amended, nor examine the criminal legislation of the remaining states to determine if more states have enacted specific legislation dealing with trade secrets, as a complete and up-to-date set of the laws of all states was not available to us. The citations set out in Notes 228 and 229 indicate the currency of our information with respect to any individual state. Since the purpose of our analysis is to identify the issues that are inherent of American legislation, we do not feel this lack of currency represents a fatal flaw. We note that the American criminal provisions applicable to the misappropriation of trade secrets have been collected in Epstein, Note 107, supra. Unfortunately the statutes appearing in Epstein are no more current than those discussed here.

12.10 American states have approached the problem of criminalizing the misappropriation of trade secrets in one of two ways. Eleven states[228] include trade secrets within the definition of property for the purposes of their penal laws (although the words "trade secret" may not themselves be used) and rely on offences of general application to define the conduct proscribed. Eighteen other states[229] have drafted specific legislation dealing with the problem of misappropriation. We discuss these approaches separately.

(1) Trade Secrets as Property

12.11 Including trade secrets within the definition of property indicates only the doctrinal approach to be taken to the problem of misappropriation but does not of itself indicate what information is to be protected. The eleven states have confronted the latter issue in different ways.

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[228] Conn. Gen. Stat. Ann. s. 53a-124 (West Supp. 1983); Del. Code Ann. tit. 11, s. 857 (Supp. 1984); Idaho Code s. 18-2402 (Supp. 1982); Ill. Ann. Stat. ch. 38, s. 15-1 (Smith-Hurd Supp. 1985); Ind. Code Ann. s. 35-41-1-2 (Burns Supp. 1982); Me. Rev. Stat. tit. 17-A, s. 352 (1983); Md. Ann. Code art. 27, s. 340 (1982); Mont. Code Ann. 45-2-101 (1981); N.H. Rev. Stat. Ann. s. 637:2 (1974); N.J. Stat. Ann. 2C:20-1 (West 1982); Utah Code Ann. s. 76-6-401 (1978).

[229] Ark. Stat. Ann. s. 41-2207 (Bobbs-Merrill 1975); Cal. Penal Code s. 499c (West Supp. 1985); Colo. Rev. Stat. s. 18-4-408 (Bradford-Robinson 1973); Fla. Stat. Ann. s. 812.081 (West Supp. 1985); Ga. Code Ann. s. 26-1809 (1978); Mass. Gen. Laws Ann., ch. 266, s. 30, s. 60A (West Supp. 1985); Mich. Comp. Laws Ann. s. 752.772 (Supp. 1985); Minn. Stat. Ann. s. 609.52 (West Supp. 1985); Neb. Rev. Stat. s. 28-548 (1975); N.M. Stat. Ann. 30-16-24 (1978); N.Y. Penal Law s. 155.00, s. 165.07 (McKinney); N.C. Gen. Stat. s. 14-75.1 (1981); Ohio Rev. Code Ann. s. 1333.51 (Page Supp. 1977); Okla. Stat. Ann. tit. 21, s. 1732 (West Supp. 1982); Pa. Stat. Ann. tit. 18, s. 3930 (Purdon Supp. 1985); Tenn. Penal Code Ann. s. 39-4239 (1975); Tex. Penal Code Ann. tit. 7, s. 31.05 (Vernon 1974); Wis. Stat. Ann. s. 943.205 (West Supp. 1984).

12.12 The criminal provisions of Indiana provide that "property" means "anything of value and includes...trade secrets" but give no indication of what objects or information constitute a trade secret.[230] Idaho has defined property to be "anything of value", and includes listed tangible objects which "constitute, represent, evidence, reflect or record a secret, scientific, technical, merchandising, production or management information design, process, procedure, formula, invention or improvement".[231] The words "trade secret" are nowhere used. Delaware defines property to mean "anything of value" including "trade secrets".[232] In Minnesota, property means "all forms of tangible property...including... articles... representing trade secrets".[233] New Jersey acknowledges the intangible nature of trade secrets. Property is there defined as "anything of value, including...tangible and intangible personal property [and] trade secrets."[234] Delaware, Minnesota and New Jersey each provide a further definition of "trade secret".

12.13 This approach to criminalizing the misappropriation of trade secrets seems to present at least as many problems as it solves. First, since many of the states limit their definition of property to tangible objects, trade secrets receive only peripheral protection that does not differ significantly from what was previously and otherwise available under the offences of general application.

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[230] Ind. Code Ann. s. 35-41-1-2 (Burns Supp. 1982).

[231] Idaho Code 18-2402(8) (Supp. 1982).

[232] Del. Code Ann. tit. 11, s. 857 (Supp. 1984).

[233] Minn. Stat. Ann. s. 609.52 subd. 1(1) (West Supp. 1985).

[234] N.J. Stat. Ann. 2C:20-1(i) (West 1982).

12.14 Second, even where trade secrets are defined in terms sufficiently broad to encompass intangibles, the protection available depends upon the reach, and the applicability, of general provisions. The problems involved are similar to the difficulties, discussed at paragraphs 4.24 to 4.45, that are presented by the application of the theft provisions of the Criminal Code to the misappropriation of trade secrets. In fact, such a process seems to us to represent the antithesis of our conclusion that the legal protection of trade secrets, whether at civil or criminal law, requires a sensitive accommodation of competing interests, not arbitrary prohibitions.

12.15 In the Canadian context, amending the definition of "property" to include trade secrets would provide an indication to the courts of a legislative intent that trade secrets be protected and indicate a scheme - property rights - by which this is to be accomplished. However including trade secrets within the definition of property would not indicate what "taking" means in the context of misappropriation of information, nor avoid the problems associated with the application of paragraphs 283(1)(a) through (d) to alleged thefts of trade secrets. The manner in which the value of a trade secret was to be ascertained would remain uncertain. Unwanted violations of section 312 of the Criminal Code (Possession of Property Obtained by Crime) and section 380 (Criminal Breach of Contract) would still exist. In the light of these difficulties, we turn to an analysis of the specific offences enacted by certain American states.

(2) Specific Offences

(i) Legislative provisions

12.16 In legislating criminal sanctions against the misappropriation of trade secrets the individual American states have been forced to confront the two issues identified by both the Younger Committee on Privacy in the United Kingdom and the Torts and General Law Reform Committee of New Zealand: (1) What information should be protected criminally? (2) What conduct should be proscribed? The states have responded to these questions in widely different ways. The differences are in part the result of the legislative process,[235] but also reflect the particular weighting given to the policy consideration involved. Our examination of the legislative responses concentrates on the manner in which particular states have proscribed conduct deemed sufficiently reprehensible to warrant criminal sanction.

12.17 This is in keeping with our attempt to determine, from an analysis of American legislative provisions, the issues that are presented for proscribing the criminal misappropriation of trade secrets. This process is most critical in relation to behavioural questions. In Chapter 8 we stated our preference for evolving definitions that will see service in both the civil and the criminal law fields, and in Chapter 13 we argue that the nature of the law reform exercise justifies a common definition of trade secret. The question then becomes what conduct ought to be proscribed. It is in relation to this question that an analysis of the American provisions can be of most assistance. We therefore first describe the provisions that have been enacted, then seek to identify the relevant issues.

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[235] "Trade Secrets in Texas" (1975) 17 South Texas L.J. 132 explains the lack of clarity and conciseness in the Texas trade secrets provision, Tex. Penal Code Ann. Tit. 7, s. 31.05, by explaining that it was added during floor debate in the Senate and was never considered by the State Bar Committee. In Atkins v. State of Texas, 667 S.W. 2d 540 (1983) the Texas Court of Appeals referred at 542 to the Texas trade secrets statute as "noticeably broad and lacking in the precision, clarity and conciseness typical of other penal statutes."

12.18 Of the eighteen states that have specific statutory provisions, only in Georgia[236] and Oklahoma[237] does the severity of the offence depend upon the value of the trade secret or the article embodying it. The remaining states define the offence as either a felony or a misdemeanor, making it unnecessary in a particular situation to value the trade secret to classify the offence alleged to have been committed.

12.19 The California Penal Code defines two offences. First, section 499c(b) provides:

> Every person is guilty of theft who, with intent to deprive or withhold from the owner thereof the control of a trade secret, or with an intent to appropriate a trade secret to his or her own use or to the use of another, does any of the following:
>
> (1) Steals, takes, carries away, or uses without authorization a trade secret.
>
> (2) Fraudulently appropriates any article representing a trade secret entrusted to him.
>
> (3) Having unlawfully obtained access to the article, without authority makes or causes to be made a copy of any article representing a trade secret.
>
> (4) Having obtained access to the article through a relationship of trust and confidence, without authority and in breach of the obligations created by such relationship makes or causes to be made,

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[236] Ga. Code Ann. s. 26-1809(b)(2) (1978).

[237] Okla. Stat. Ann. tit. 21, s. 1732.A(b) (West Supp. 1982).

> directly from and in the presence of the article, a copy of any article representing a trade secret.[238]

Sub-section 499c(c) of the California Penal Code[239] also makes it an offence, inter alia, for anyone to bribe an employee or former employee to make available an article representing a trade secret of his or her present or former employer, or for any employee or former employee to accept a bribe for making a trade secret so available. Thus, both sub-sections 499c(b) and 499c(c) contemplate that an employee may be criminally liable for the misappropriation of a trade secret of his employer. Criminal misappropriation by an employee is distinguished from non-criminal conduct by the presence of a criminal intent.

12.20 The criminal law of Colorado makes it an offence for any person:

(i) with intent to deprive or withhold from the owner thereof the control of a trade secret, or

(ii) with intent to appropriate a trade secret to his own use or to the use of another, either

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[238] Cal. Penal Code s. 499c (West Supp. 1985). See People v. Serrata (1976), 62 Cal. App. 3d 9; In Ward v. Superior Court, 3 Computer L. Serv. 206, the defendant, from a remote access terminal, dialed into a computer and secured a printout of the source code of a competitor's program. The Court held that the defendant's actions violated s. 449c(b), either on the basis that he made a copy of the program and transported it from the computer room to his office, thus providing the transportation required under paragraph (1), or on the grounds that he made a copy in violation of subdivision (3). California has recently enacted the Uniform Trade Secrets Act, thus providing a specific cause of action for misappropriation of a trade secret: see Note 12, supra.

[239] Id.

(iii) to steal or disclose to an unauthorized person a trade secret or,

(iv) without authority, to make or cause to be made a copy of an article representing a trade secret.[240]

12.21 Misappropriation of trade secrets under the criminal laws of Tennessee, Arkansas, Florida, Michigan, New Mexico, Oklahoma, Pennsylvania and Wisconsin[241] is prohibited in the same general terms as are used in Colorado. However, there are differences among the particular forms of statutory prohibition adopted in individual states that are worthy of note. Arkansas limits the requisite mental element required to support a conviction to an intention to deprive or withhold from the owner the control of a trade secret.[242] The intention, on the part of a trade secret "thief", to appropriate a trade secret to his own use, does not constitute a sufficient mens rea for misappropriation in Arkansas. Pennsylvania[243] defines conduct similar to that proscribed in Colorado as a misdemeanor, but insists that the necessary intent must be "wrongful". Pennsylvania also provides that it is a complete defence to any misdemeanor prosecution for the defendant to show that information comprising the trade secret was rightfully known or available to him from a source other than the owner of the trade secret.[244] The Wisconsin offence includes not just stealing, disclosing or copying an article embodying a trade secret within its purview, but also penalizes anyone who "takes, uses, transfers, conceals, exhibits or retains possession of property of the owner representing a trade secret" or who obtains title to property representing a trade secret by way of a false representation.[245]

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[240] Colo. Rev. Stat. s. 18-4-408(1) (Bradford-Robinson 1973). In People v. Home Insurance Company, 591 P. 2d 1036, confidential medical records were held not to constitute trade secrets because such records did not constitute information relating to "any business or profession", a constituent element of the definition of trade secret. Colorado has since enacted a new provision making theft of medical records an offence: Colo. Rev. Stat. s. 18-4-412 (Bradford-Robinson Supp. 1982).

[241] Note 229, supra. In United States v. Payner, 434 F. Supp. 113 (N.D. Ohio 1977) the Court commented on the Florida theft of trade secrets provisions, now Fla. Stat. Ann. s. 812.081 (West Supp. 1985). The defendant was attempting to suppress a piece of government evidence that was obtained by Internal Revenue agents who broke into a house in Florida where an employee of a bank was staying and stole a list of depositors from the employee's suitcase. The agents photographed the list and replaced the documents without the employee's knowledge. The evidence was excluded on Fifth Amendment grounds. The court stated that "due process requires exclusion of reliable evidence only in those cases in which government officials obtained the challenged materials in a grossly improper fashion, i.e. by engaging in illegal conduct which exhibits a knowing and purposeful bad faith hostility to any person's fundamental constitutional rights." In arriving at the conclusion that the conduct of the government agents was improper, the Court noted that the agents' conduct probably violated the Florida criminal misappropriation of trade secrets statute.

12.22 Wisconsin has also included an express provision that its theft of trade secrets offence does not prevent anyone from using skills and knowledge of a general nature gained while employed by the owner of a trade secret.[246]

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[242] Ark. Stat. Ann. s. 41-2207 (Bobbs-Merrill 1975).

[243] Pa. Stat. Ann. tit. 18, s. 3930 (Purdon Supp. 1985).

[244] Id., s. 3930(d). Similar defences are found in Maryland: Md. An. Code art. 27, s. 343(c)(4) (1982); and Minnesota: Minn. Stat. Ann. s. 609-52 subd. 1(8) (West Supp. 1985).

[245] Wis. Stat. Ann. s. 943-205(1) (West Supp. 1984).

[246] Id.,s. 943.205(5).

12.23 It is an offence in Massachusetts to:

(i) steal a trade secret; or

(ii) with intent to defraud, obtain by false pretence a trade secret; or

(iii) unlawfully,

(a) and with intent to steal or embezzle,

(b) to convert, secrete, unlawfully take, carry away, conceal or copy with intent to convert any trade secret of another.[247]

The criminal law of Massachusetts contains a further provision, reminiscent of offences imposing liability on possessors of stolen property, whereby anyone who buys, receives, conceals, barters, sells, disposes or pledges as security for any loan a trade secret, knowing the same to have been stolen, unlawfully converted, or taken, commits an offence punishable by imprisonment for up to five years.[248]

12.24 The criminal law of Minnesota incorporates articles representing trade secrets within the general definition of

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[247] Mass. Gen. Laws. Ann., ch. 266, s. 30 (West Supp. 1985). In Commonwealth v. Robinson, 388 N.E. 2d 705, the accused, through false representations as to his intention of becoming a franchisee, obtained access to customer and price lists and a reference manual of a franchisor. The Appeals Court of Massachusetts acknowledged that Robinson's conduct might have qualified as an obtaining by false pretence with intent to defraud, but held, due to the absence of evidence that the franchisor took any precautions to secure or preserve the secrecy of the information alleged to have been misappropriated, that the information could not be considered secret as required by the statute.

[248] Id., s. 60A.

"property" for the purposes of theft.[249] However rather than relying solely on offences of general application, Minnesota has also included a subsection directed specifically towards trade secrets. It is an offence for a person:

(i) intentionally, without claim of right, and knowing an article to represent a trade secret,

(ii) to convert an article to his own use or that of another person, or

(iii) to make a copy of an article representing a trade secret and convert the copy to his own use or that of another person.[250]

12.25 The Penal Law of New York uses the concept of "secret scientific material" rather than "trade secrets". It does not contain any specific provision directed toward theft of "secret scientific material", relying on the general larceny provision to address such cases.[251] However, the New York Penal Law does define an offence of unlawful use. Everyone commits an offence who:

(i) with intent to appropriate to himself or another the use of secret scientific material, and having no right to do so and no reasonable grounds to believe that he has such right,

(ii) makes a tangible reproduction of secret scientific material by means of writing, photographing, drawing, mechanically or electrically reproducing or recording such scientific material.[252]

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[249] Minn. Stat. Ann. s. 609.52 subd. 1(1) (West Supp. 1985).

[250] Id. s. 609.52, subd. 2(8).

[251] N.Y. Penal Law s. 155.00 (McKinney).

12.26 The criminal law of Texas provides that anyone commits an offence who:

(i) without an owner's effective consent, knowingly

(ii) steals a trade secret; or

(iii) makes a copy of an article representing a trade secret; or

(iv) communicates or transmits a trade secret.[253]

12.27 It is an offence in Ohio:

(i) with either the intent to deprive or withhold from an owner the control of a trade secret, or with the intent to convert a trade secret to one's own use or the use of another, to obtain possession of or access to an article representing a trade secret;

(ii) having obtained access to a trade secret with an owner's consent, to convert to one's own use or that of another, the articles or a copy thereof;

(iii) by force, violence, threat or bribe, to obtain or to attempt to obtain an article representing a trade secret; or

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[252] Id., s. 165.07.

[253] Tex. Penal Code Ann. tit. 7, s. 31.05(b), (Vernon 1974).

(iv) without authorization, to enter upon premises of another with intent to obtain possession of or access to an article representing a trade secret.[254]

12.28 The statutory provisions described above clearly manifest an intention to criminalize certain conduct in relation to trade secrets. However, there are several problems with the provisions that prevent us recommending any of them as a model for Canadian legislation.

12.29 The statutes of many states are directed toward the misappropriation of tangible objects representing a trade secret.[255] This indicates that the theft of a bottle of Coca-Cola could qualify as theft of a trade secret since the liquid is an embodiment of the secret recipe. This result seems anomalous. Misappropriation of a trade secret is complete only when knowledge of the secret is acquired, disclosed or used. Until such time, the misappropriation of the trade secret remains inchoate notwithstanding any asportation of a tangible object. Moreover the theft of tangible objects is already adequately addressed by offences of general application and does not need the benefit of further legislation. The primary concern of the trade secret offences should thus be to address the "informational" aspect of misappropriations.

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[254] Ohio Rev. Code. Ann. s. 1333.51 (Page Supp. 1977).

[255] See for example N.Y. Penal Law s. 165.07: it is an offence thereunder to make a tangible reproduction of secret scientific material which in turn is defined in terms of tangible objects.

12.30 Certain types of behaviour are not obviously covered by all of the provisions. It is an offence in Colorado to make or cause to be made a copy of an article embodying a trade secret.[256] It is unclear whether this prohibition is, or is intended to be, wide enough to encompass the use of a trade secret, e.g. would an ex-employee who uses the trade secrets of his or her former employer to go into competition be considered to be making copies of articles embodying a trade secret? The answer is not obvious. Massachusetts criminalizes obtaining a trade secret by means of a false pretence,[257] but such fraudulent acquisitions are not caught by many other states, e.g. the Minnesota offence prescribes only dealing with, converting or copying articles embodying a trade secret.[258]

12.31 These lacunae in the conduct proscribed result from the method utilized by the individual states to define the conduct deemed to be sufficiently reprehensible to warrant sanction. Many seem, at least in part, to have approached the problem of specifying such conduct by way of criminalizing certain means of acquiring, disclosing or using a trade secret, i.e. an "improper means" approach.[259] Florida, Michigan, New Mexico and Oklahoma[260] for example prohibit acquiring a trade secret by means of stealing or embezzling an article representing a trade secret. There are two problems with such an "improper means" approach in the criminal law context.

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[256] Note 240, supra, s. 18-4-408(1).

[257] Note 247, supra, s. 30(4).

[258] Note 249, supra, s. 609.52 subd. 2(8).

[259] See paragraphs 10.24-10.29, supra.

[260] Note 229, supra.

12.32 First, while the resulting provisions may well apply with certainty to particular types of conduct, many equally reprehensible methods of misappropriating a trade secret appear by definition to be beyond their purview. A prohibition against acquiring a trade secret by way of theft or embezzlement says nothing about the use of bribery or extortion.

12.33 Second, the "improper means" approach confuses the concepts of actus reus and mens rea, traditionally, in Canadian criminal law, separate notions. The criminal law of Michigan makes it an offence, with one of the intents specified, to steal or embezzle an article representing a trade secret.[261] Thus, the actus reus for misappropriation of a trade secret appears to be the commission of another offence (i.e. theft or embezzlement), which offence has its own actus reus and mens rea components. A similar confusion between the actus reus and mens rea is evident in the Massachusetts statute.[262] The actus reus for the offence of misappropriation includes copying. The mens rea necessary is both an intention to convert and an intention to steal or embezzle (which being offences in themselves contain an actus reus and a mens rea). The statute thus compounds mens rea on mens rea.

12.34 We note, by way of general observation, that the mental element required for the misappropriation in certain other states is relatively weak. The offence in Arkansas is expressed in terms of obtaining or disclosing to an unauthorized person a trade secret with the intent to deprive the owner of control of the trade secret.[263] The mental element that distinguishes criminal from civil misappropriation is not apparent, as this intention would be satisfied by any employee who, on terminating his employment, enters into competition with his or her former employer. In the Canadian context, there is no obvious reason why the mental element necessary for the criminal acquisition, disclosure or use of a trade secret should be any less than that required for the act of theft.

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[261] Mich. Comp. Laws Ann. s. 752.772 (Supp. 1985).

[262] Note 247, supra.

12.35 Certain states, among them California[264] and Colorado[265] indicate in their statutes that the mens rea for non-consensual acquisition, disclosure or use of a trade secret should include

(a) the intention to deprive or withhold from an owner the control of a trade secret, or

(b) the intention to appropriate a trade secret to one's own use or to the use of another.

It is not apparent that these intents express completely the notion that it is an interference with the economic advantage derived from a trade secret which is the gravamen of the offences. However,these intentions do avoid the problems encountered in Canada in attempting to apply the current definition of theft to misappropriation of a trade secret: the intents with which the act must be committed require an expansive interpretation if they are to be applicable to the misappropriation of information. For example, paragraph 283(1)(d) of the Criminal Code, the intention to deal with a thing in such a manner that it cannot be restored in the condition in which it was at the time of the taking, was designed to incorporate within the definition of theft cases in which an accused takes an object intending to replace it. In R. v. Stewart, Houlden, J. A. held that a scheme to copy confidential information, thereby destroying its confidentiality, demonstrated an intent to deal with information in such a manner that it would not have been "returned" in the condition that it was in at the time it was taken or converted.[266]

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[263] Note 242, supra.

[264] Note 238, supra.

[265] Note 240, supra.

(ii) Defences

12.36 The preceding paragraphs have discussed the comprehensive nature of the statutory provisions. It is equally important, in assessing the impact of these provisions, to determine what behaviour is excluded from their reach and to note the manner in which certain marginal situations are treated. We discuss briefly certain defences created under the statutory provisions and the treatment of some situations where the arguments for criminal penalties may be more open to compromise.

12.37 Two preliminary points are in order however. First, all states provide the defence that arises implicitly from an absence of a requisite element of the offence. Thus in California[267], where the definition of a trade secret requires that the secret give the user thereof an advantage over competitors, it is a defence to a charge of theft of trade secrets to establish that the information gives no such advantage to the user. Further, the failure of the prosecution to prove that the alleged trade secret "thief" was aware of the advantage over competitors conferred by the trade secret would allow the accused to escape criminal liability.

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[266] Note 101, supra, 5 C.C.C. (3d) at 495. This is further discussed at paragraph 4.32 supra.

[267] Note 238, supra.

12.38 Second, California[268], Florida[269] and Georgia[270] include a provision that it is no defence to a charge of misappropriation that the person returned or intended to return the article representing the trade secret. Such a defence appears unnecessary in those jurisdictions where the mens rea requires either an intent to deprive or withhold from the owner control of the trade secret or an intent to appropriate the trade secret to the use of one other than the owner. The return of an article embodying the trade secret would not negate either intention with respect to the secret itself.

12.39 None of the statutory provisions described above deal expressly with acquisition of a trade secret by independent development, reverse engineering or lawfully obtaining the trade secret from a person with a right to disclose the secret. Arguably the requirement, expressed in various ways, that the conduct be wrongful entails that neither lawfully obtaining nor independent development of a trade secret would fall within the proscribed conduct. Neither method of acquisition would constitute an offence under any state statute and an express statement to that effect is thus unnecessary.

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[268] Note 238, supra, s. 499c(d).

[269] Fla. Stat. Ann s. 812.081(3) (West Supp. 1985).

[270] Ga. Code Ann. s. 26-1809(c) (1978).

12.40 The situation is less clear with respect to reverse engineering. On the one hand, it may be argued that reverse engineering has long been an accepted business practice and no court is likely to consider such to be dishonest conduct.[271] An express exclusion, according to this argument, is therefore unnecessary. However, the statutory language used in both Ohio[272] and Texas[273] may be broad enough to encompass either reverse engineering, or disclosure of a trade secret thus obtained. Moreover, in situations in which a product is marketed with a label that indicates that the product embodies a trade secret and which instructs purchasers not to take apart the product for any purpose[274], a court might well hold that reverse engineering, in addition to constituting a breach of contract, is also dishonest and within the purview of the offence.

12.41 The application of the criminal law to employees who misappropriate trade secrets is difficult. We note that the statutory provisions described above are, for the most part, of little assistance in distinguishing between cases in which an employee should be criminally liable for misappropriation of the trade secrets of his or her former employer and cases in which the employee should not. The distinction between criminal and non-criminal acts, with employees as with others, is to be made according to the presence or absence of criminal intent, i.e. no special treatment is accorded to employees. However some of the statutory provisions described above clearly contemplate that employees will be liable for prosecution for theft of trade secrets under appropriate circumstances. The Wisconsin statute appears to back into such a result:

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[271] International Election Systems Corp. v. Shoup, 452 F. Supp. 684, aff'd 595 F. 2d 1212 stated at F. Supp. 706: "Where the nature of the alleged trade secret is ascertainable upon inspection, it does not qualify as a trade secret, even if the machine must be rendered inoperative and an expert engineer engaged in order to ascertain how the product is made or operates."

[272] Note 254, supra.

[273] Note 253, supra.

[274] Agreement for IBM Licensed Programs-Value Added Remarketer's Licensed End User, Form VEUALP-01 (07-15-84) provides as follows: "The Licensed End User shall not reverse assemble or reverse compile the licensed programs in whole or in part."

> This section does not prevent any one from using skills and knowledge of a general nature gained while employed by the owner of a trade secret.[275]

Such a result would also follow under the general theft provisions in force in Washington. Theft is defined in terms of "wrongfully obtaining or exerting unauthorized control" over property and this phrase is further defined to include conduct where an individual, having property in his or her control as an employee, appropriates the same to his or her own use or to the use of another person.[276]

12.42 We note that the Swedish Commission on the Protection of Trade Secrets[277] adopted a cautious attitude toward subjecting employees to criminal liability for misappropriation of trade secrets. The Commission felt that generally criminal liability was not necessary in employer-employee situations. It did recognize however that an exception to the general rule was required in certain cases. The Commission therefore proposed that an employee be held criminally liable for actions which are "exceptionally improper", constituting misappropriation of trade secrets that occur after the employee has left. The example was given of the employee who systematically collects materials to be used after his departure. The Commission felt that there was no reason why the treatment of such "on the job" espionage should differ from that accorded the more normal forms of industrial espionage.

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[275] Note 245, supra, s. 943.205(5).

[276] Wash. Rev. Code Ann. s. 9A.56.010(7)(b) (1977).

[277] Note 162, supra.

12.43 At least three states have dealt with the question of whether employees should be criminally liable in an indirect manner. Maryland, Minnesota and Pennsylvania[278] include subsections specifying that it is a defence to a charge of misappropriation to establish that the trade secret was either rightfully known to the defendant or available to him or her from another source. The "rightfully known" aspect of these defences suggests that all but the most egregious cases of misappropriation by employees will not constitute an offence. The employee who, in the course of his or her duties, acquires knowledge of a trade secret has rightfully acquired the information, and thus will escape criminal sanction for later disclosure or use. The liability of such an employee will be determined solely at civil law. In contradistinction, the inhouse industrial spy who searches out the details of trade secrets for the sole purpose of misappropriating them, and not because knowledge of the trade secret is necessary for the performance of the duties of the job, appears to be subject to liability.

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[278] Note 244, supra.

12.44 It should be noted however that these defences deal with more situations than just the employer-employee, e.g. they provide an individual to whom a trade secret is disclosed in the course of contractual negotiations with a defence to any criminal charge for subsequent disclosure or use. They also specify that it is a defence to a charge of misappropriation to establish that the information was available to the accused from another source. This reflects a policy decision to limit the use of the criminal law to only the most secret information. However it also changes the focus of the offence from an offence directed against certain wrongful conduct to one concentrating on protecting "property" rights in trade secrets.[279]

12.45 The "available elsewhere" defence imposes a more severe limitation on the information protected than that which results from the requirement used in the definition of trade secret that the information be in some way secret. The latter condition allows for limited dissemination of the knowledge whereas the defence suggests that any dissemination is sufficient to destroy the trade secret in the eyes of the criminal law. We find it anomalous and at odds with the purpose of condemning conduct deemed socially unacceptable to permit an accused to avoid liability where it can be established that he or she might have acquired the knowledge elsewhere, perhaps after payment of a licence fee, even though the accused chose instead to flagrantly misappropriate it.

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[279] Such a defence may also be implemented by defining trade secrets in a restrictive manner to exclude information available from another source. Since the definition of trade secrets at criminal law is likely to rely on, and be relied on by, other areas of the law, the implications of using an alternative definition extend beyond the particular fact situation.

(iii) Third parties

12.46 None of the American states that have a theft of trade secrets offence deal expressly with the liability of a third party who learns of the prior misappropriation of a trade secret only after he acquires it. Traditional statutory provisions dealing with stolen property are applicable to tangible objects representing trade secrets. Thus, in Illinois, an individual who receives stolen property knowing that it has been stolen commits theft.[280] This is the case regardless of whether the object embodies a trade secret. Similarly, in Connecticut, possession of stolen property with knowledge that it was stolen, even if such knowledge is acquired only after possession of the property was obtained, constitutes larceny.[281] No special treatment is accorded tangible objects representing trade secrets.

12.47 Less obvious under the statutes is the treatment accorded to the innocent third party acquirer of a trade secret where the trade secret is not embodied in a tangible object. It is clear that the third party is not subject to criminal liability by reason only of his acquisition of the trade secret: the third party who does not know, at the moment of acquisition, that the trade secret was misappropriated, clearly does not have the mental element necessary to support a charge of criminal misappropriation in respect of the acquisition. Nor does mere

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[280] Ill. Ann. Stat. ch. 38, s. 16-1(d) (Smith-Hurd Supp. 1985).

[281] Conn. Gen. Stat. Ann. s. 53a-119(8) (West Supp. 1983).

"possession" of the trade secret appear to constitute an offence under any of the statutes.

12.48 However many of the offences are drafted in such a way that an innocent third party who uses or discloses a trade secret after learning that it was misappropriated may commit an offence, e.g. Wisconsin prohibits the use of property representing a trade secret, with the intent to appropriate the trade secret to one's own use, or with the intent to deprive the owner of control of the trade secret.[282] Georgia provides that it is an offence to make a copy of an article representing a trade secret. The only mens rea necessary is the intent to deprive the owner of the trade secret of control,[283] and no reference is made to the manner of acquisition of the trade secret.

12.49 These provisions would potentially subject the innocent third party acquirer to criminal liability for subsequent disclosure or use of the trade secret. It is questionable whether the statutory language was intended to have this effect, or whether such treatment is appropriate.

(iv) The public interest defence

12.50 In paragraphs 10.51 to 10.60 we discussed the rationale for allowing, at civil law, a public interest defence to be invoked in a suit for misappropriation of a trade secret. None of the American statutes provides such a defence. There are two viewpoints on the necessity therefor. The first suggests that the public interest situation should be left to prosecutorial discretion. Otherwise, the argument proceeds, the defence would be raised in each and every prosecution. It is better to leave the public interest defence to the discretion of the individual prosecutor to refuse to press charges.

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[282] Wis. Stat. Ann. s. 943.205(1)(a) (West Supp. 1984).

[283] Ga. Code Ann. s. 26-1809(b)(2) (1978).

12.51 The other view is that, absent such a defence, the law would protect the conduct of holders of trade secrets which itself is reprehensible or criminal, e.g. withholding a report that the owner's product will cause injury or death.[284]

d. Conclusion

12.52 The most significant feature of American law reforms appears to be the fact of the law reform itself. The wide variety of statutory provisions adopted suggests that no method of proscribing the misappropriation of trade secrets has overwhelmingly recommended itself as the definitive solution to the problem of misappropriation. This in turn implies that an approach to criminal law reform that proceeds from basic principles is necessary.

12.53 In spite of the large number of states that have enacted criminal legislation, there have been very few prosecutions under the statutes. The existence of criminal legislation proscribing the misappropriation of trade secrets may well have a positive effect on employee behaviour, the prospect of criminal penalties discouraging such misappropriations. However the paucity of cases suggests that the negative effects of criminal legislation on employee mobility may have been overstated.

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[284] Michigan has recently enacted a Whistle Blowers Protection Act: see Sagel, "Blowing the Whistle", Ontario Lawyers Weekly, 7 December 1984. Under the Michigan law, any employee in the private sector who is fired or disciplined for reporting alleged violations of U.S. federal, state or local law to public authorities is entitled to bring an action for unjust dismissal. In those cases where the employer cannot prove that the treatment of the employee was proper, i.e. based on proper personnel standards or legitimate business reasons, the Court can award back pay, reinstatement and costs.

CHAPTER 13

RECOMMENDATIONS FOR CRIMINAL LAW REFORM

a. Introduction

13.01 Preceding chapters of this Report have suggested that, while a trade secret is not "property", there is an economic interest associated with the confidentiality of the information comprising the trade secret that is proprietary in nature. We have argued that the economic interest in the confidentiality of the information is worthy of protection, both at civil law and at criminal law. In particular we have suggested that the inability of civil law remedies to respond appropriately to the more egregious cases of misappropriation of trade secrets and the limited reach of civil law require that the criminal law intervene in this area.

13.02 This chapter discusses our proposals for reform in the criminal law. It is salutary however, before discussing our proposals for reform in detail, to indicate the general character of our recommendations. We believe that any reforms should be based upon, and reflect, the following propositions:

(1) Criminal sanctions against the misappropriation of trade secrets should supplement available civil remedies in cases of particularly reprehensible conduct. Any criminal prohibition should be concerned with the same information that is protected at civil law, and should not attempt to provide a distinct form

of legal protection to new or different categories of information.

(2) The law must define precisely the conduct that constitutes criminal misappropriation. On the one hand, the definition of such conduct must be sufficiently comprehensive to recognize the different means of misappropriating a trade secret. On the other hand, the wrongful character of such behaviour must be stated precisely.

(3) Acquisitions wrongful in other respects should not escape liability on the basis that the accused was unaware that the information appropriated was a trade secret, where that lack of knowledge of the accused resulted from negligence.

(4) The law should clearly indicate the defences that exist to the offences created.

(5) Third parties who acquire a trade secret without knowledge of the fact that it had been misappropriated, or that the information constituted a trade secret, should not be subject to criminal liability for the subsequent use or disclosure of the trade secret, but should be dealt with by the civil law.

(6) There should be no protection available at criminal law in respect of the disclosure of information that

relates to unlawful conduct or concerns public health or safety.

13.03 Each of these principles is analyzed in more detail in succeeding sections of this chapter. We also examine in the penultimate section, the effect of the guarantee to a "fair and public trial" that is contained in section 11(d) of the Charter of Rights and Freedoms upon the proposed legislation.

13.04 The discussion that follows is premised on the development of new offences directed specifically against the misappropriation of trade secrets, rather than the making of revisions to the existing theft or fraud provisions of the Criminal Code. This recognizes the position espoused in earlier chapters, especially Chapters 4 and 7, to the effect that the emphasis on particular features inherent in tangible property makes those offences inappropriate to deal with misappropriation of information.

b. The Information Protected

13.05 We feel that the same information should be protected at criminal law as is protected civilly, and recommend that the same definition of trade secret be used for the purposes of any civil statutes that may eventually be enacted and in our criminal legislation.

13.06 We have been concerned in this Report to develop the arguments for extending legal protection to trade secrets. After canvassing the arguments for providing civil remedies for the misappropriation of trade secrets, and concluding that such protection was warranted, we suggested that the intervention of the criminal law was also necessary. The arguments for the use of the criminal law set out in Chapter 6 proceeded on the basis of supplementing or remedying defects in the remedies available at civil law. This process of itself suggests that the scope of information protected by the criminal law should be no larger than that entitled to protection at civil law. The question that then arises is whether the class of information protected should be circumscribed in some way.

13.07 Such a suggestion misinterprets the nature of the process of criminal law reform in this area. Our proposed offences are directed at wrongful interference with the economic advantage derived from knowledge of a trade secret. The superadded element that justifies the use of the criminal law to punish cases of misappropriation is the improper nature of the conduct, not some particular feature of the class of information protected, i.e. we are seeking, through the use of criminal provisions to circumscribe, not some defined subset of information that warrants stronger protection, but rather those cases of misappropriation that are particularly reprehensible.

13.08 The congruence between the information protected at civil law and that which is protected at criminal law has the practical advantage that it will permit the experience of the civil courts in determining what constitutes a trade secret to assist criminal courts dealing with the same question.[285] Further, by providing evidence of a strong public policy in favour of protection of certain types of information, it may indirectly enhance the rights of private litigants.[286]

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[285] In Commonwealth v. Robinson, Note 247, supra, the Court relied on civil cases interpreting the definition of trade secret because there were no cases interpreting the criminal provisions.

13.09 A concomitant issue concerns whether, in light of our concerns about treating trade secrets as property, the Criminal Code should be expressly amended to exclude trade secrets from the definition of "property". Such an amendment seems appropriate. The enactment of new offences to combat misappropriation would not of itself prevent the application of the property-related offences to trade secret crimes. Indeed, their application may receive judicial support if the Ontario Court of Appeal decision in R. v.Stewart is upheld by the Supreme Court of Canada. An amendment to the Criminal Code indicating that trade secrets are not property would forestall any debate as to the possible application of both the generalized property-related offences and the new provisions suggested here to cases of misappropriation of a trade secret, but would not prevent the application of theft, fraud or similar provisions to cases involving tangible objects. We believe this to be an appropriate result and recommend that the Criminal Code be so amended. In short, we believe that if the concept of a trade secret is to be introduced into the Criminal Code it should be treated consistently throughout the Code. The necessary amendments which would seem to be required to achieve this objective are discussed briefly in the final section of this chapter. Some members of the Working Party were concerned whether this series of consequential amendments amounts to an overkill, or an excess of caution. On the other hand, the Stewart reasoning could possibly be held to apply to other Code provisions, and this exercise, if nothing else, indicates the difficulties created by that decision.

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[286] In CPG Products Corp. v. Mego Corp., 502 F. Supp. 42 (S.D. Ohio 1980) the court noted the existence of Ohio criminal law proscribing theft of trade secrets as supporting public policy that favoured the grant of a temporary injunction to restrain disclosure of a trade secret by the defendant to a foreign subsidiary in a jurisdiction that did not have remedies for misappropriation of trade secrets.

c. The Conduct Condemned

13.10 We believe that the criminal law should proscribe both the non-consensual acquisition, disclosure or use of a trade secret, and such conduct performed with consent, where the consent was fraudulently obtained. However, Canadian criminal law has traditionally drawn a distinction between consensual and non-consensual acquisitions, preserving fraud and theft as two separate offences in the Criminal Code.[287] We recommend that this approach be continued in respect of the criminal misappropriation of trade secrets, and in the discussion that follows the two types of behaviour are separately considered.

13.11 The canvass of American definitions set out in Chapter 12 suggests that there are two approaches to specifying the conduct that amounts to criminal misappropriation. First, the offence may prohibit the acquisition, disclosure or use of a trade secret that is accomplished by or derived from improper means, e.g. Florida prohibits stealing or embezzling an article embodying a trade secret.[288] In fact, this approach has been adopted in the civil statute recommended in Chapter Ten: acquisition of a trade secret by improper means is treated as a tort. The second approach defines misappropriation as certain acts, done with the specified mental intent. For example Minnesota defines misappropriation in terms of the converting or copying of an article representing a trade secret accomplished with the intention of converting the article to one's own use or the use of another.[289]

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[287] The traditional distinction between the offences of theft and fraud must be viewed in light of R. v. Kirkwood, Note 117, supra. As pointed out at paragraph 4.55, the Ontario Court of Appeal decision in Kirkwood suggests that s. 338, Fraud, would also proscribe non-consensual acquisitions of a trade secret. This results from the manner in which the Court of Appeal interpreted the words "other fraudulent means" that appear in s. 338. We note that if the provisions of Bill C-19, the proposed Criminal Law Amendment Act, 1984 that died on the Order Paper of the Thirty-Second Parliament are re-introduced and enacted by Parliament, s. 338 would be amended and the words "other fraudulent means" would no longer appear. This would appear to restore the distinction between theft and fraud.

13.12 Our proposed legislation adopts the latter approach. We define the actus reus in simple, comprehensive (and neutral) terms as the acquisition, disclosure or use of a trade secret. Criminal acquisitions, disclosures and uses are then distinguished from non-criminal ones through the requirement that the acts be done with criminal intent, i.e. the criminal character of the conduct is expressed in the mens rea required. Such an approach has the advantage of permitting the actus reus and mens rea elements of the offence to be treated separately. We note that defining misappropriation in terms of improper means appears to eliminate any doubt as to how behaviour such as independent development or reverse engineering is to be treated. Under our proposed offence, the treatment of such behavior is less clear since acquisition by reverse engineering or by independent development is, by its nature, without consent.

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[288] Fla. Stat. Ann. s. 812.081(2) (West Supp. 1985).

[289] Minn. Stat. Ann. 609.52 Subd. 2(8) (West Supp. 1985).

However, this is not determinative. The questionable or marginal cases can be addressed in a straightforward manner by express statements without any adverse effects. Moreover the thorny problems presented by such behaviour are probably best addressed by providing such express statements rather than permitting such matters to be dealt with tacitly.

13.13 Further, the second approach seems more consistent with the objectives of the criminal law enumerated above. In paragraph 4.6 it was suggested that, in drafting criminal legislation, care should be taken to avoid fact-specific offences. The danger of proscribing the misappropriation of trade secrets in terms that prohibit particular, specified acts is that the generality desirable of a criminal provision would then be absent and the focus of our offence would shift from proscribing certain types of egregious behaviour to prohibiting only a certain subset thereof.

13.14 Acquisition, disclosure and use embody, in neutral terms, the methods by which the economic advantage associated with a trade secret may be interfered with.[290] Such criminal misappropriations also appear to satisfy the requirements of either the tort of improper acquisition of a trade secret or the tort of improper use or disclosure, the enactment of which are recommended above. We considered, and rejected, the idea of defining misappropriation in terms of conversion. While an individual may certainly convert a trade secret to his or her own use by disclosing or using knowledge thereof, "disclosure" and

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[290] This description of the physical conduct also avoids the problems associated with the word "take", which is best suited to offences involving tangible property.

"use" define more concisely the conduct against which this offence is directed.[291] They also come unencumbered by centuries of case law interpreting their meaning in the context of tangible objects, an advantage given the orientation of our offence towards information.

13.15 The behaviour that is encompassed within the words "disclose" or "use" is clear. However a word is in order concerning the meaning of "acquire". Our definition of trade secret is expressed in terms of information: thus a trade secret is acquired only when the guilty individual is actually aware of the information. In the result, the thief who steals a tangible object embodying a trade secret has not, at least until he has reversed engineered the trade secret, acquired the trade secret within the meaning of the draft section.[292]

13.16 As set out above, we have rejected the notion that a trade secret should be treated as property while accepting the notion that there is an interest in the confidentiality of trade secrets that is proprietary in nature. We are therefore precluded, in referring to the non-consensual nature of the misappropriation, from speaking of misappropriations done without the consent of the "owner". Instead, we introduce the concept of "trade secrets of another person", and define this concept in terms that recognize the different interests that can exist in a trade secret and which can be held by different individuals. In particular, the definition implies that a trade secret may be criminally misappropriated from an individual who is only a licensee of the trade secret. An analogy can be drawn, albeit loosely, to the language of paragraph 283(1)(a) which speaks of depriving the owner of or the person who has a special property interest in anything, of the thing or the special property interest therein.

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[291] We have also rejected the notion that "possession" of a recently misappropriated trade secret should be an offence. Such possession may be an evidentiary point, but should not, of itself, constitute an offence.

[292] Such a thief may, in appropriate circumstances, be guilty of attempted misappropriation.

13.17 We rely on the mens rea to circumscribe those cases of misappropriation sufficiently reprehensible to warrant criminal penalties. Many of the statutes described in chapter 12 confuse the separate concepts of actus reus and mens rea.[293] In other instances, the mental element required is relatively weak, e.g. the offence in Arkansas is expressed in terms of obtaining or disclosing to an unauthorized person a trade secret with intent to deprive the owner of control thereof.[294] This intention would be satisfied by any employee who, on terminating his or her former employment, enters into competition with his or her former employer. Expressing the mental element in such terms obviates any distinction between civil and criminal misappropriations.

13.18 We believe that the reprehensible nature of the conduct to be proscribed by the misappropriation offences is similar to the egregious quality of the behaviour encompassed within the offence of theft, and conclude that the mens rea of the two offences should be described in similar terms. The offence of theft in Canada currently requires that the actus reus be done fraudulently, without colour of right and with one of the intentions enumerated in paragraphs 283(1)(a)-(d). While "fraudulently" and "without colour of right" may often amount to the same thing, in fact they are based on distinct concepts and require separate consideration.[295] The word "fraudulently" implies some notion of acting knowingly, against the owner's wishes and with some degree of moral turpitude. "Without colour of right" is the different principle that an accused does not honestly believe that he has a right to "take" an object, or in the case of trade secrets, acquire information. The distinct concepts embodied in the two phrases require that both concepts be included as part of the mens rea of the offence of criminal misappropriation.[296]

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[293] See paragraph 12.33.

[294] Note 242, supra.

13.19 While the concepts of "fraudulently" and "without colour of right" may be borrowed from the theft provisions, the intents enumerated in paragraphs 283(1)(a)-(d) do not admit of easy application to cases of misappropriation of trade secrets. They are based on concepts of tangible property which is suceptible to exclusive possession. Such notions are not applicable to trade secrets, the benefits of which may be simultaneously enjoyed by more than one individual.

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[295] Mewett & Manning, note 98, supra at 496-7.

[296] Section 60 of Bill C-19, the proposed Criminal Law Reform Act that died on the Order Paper of the Thirty-Second Parliament would have amended the offence of theft in the Criminal Code. The words "fraudulently and without colour of right" would have been replaced with "dishonestly and without claim of right". Our recommendation concerning the mental element suited to the criminal misapprroriation offence is based on the sense that the reprehensible nature of the conduct proscribed is of the same order as that condemned under the offence of theft. In the event that the amendments are re-introduced at a later date, and provided that "without claim of right" is not defined in terms of property (as was the case with Bill C-19), we would support corresponding amendments to the criminal misappropriation offences suggested here.

13.20 We aim to protect, through the criminal law, not a possessory interest in the information, but rather, the economic interest in the confidentiality thereof. Indeed the proposed definition of trade secret recognizes the critical importance of this interest by requiring that the trade secret have economic value from not being generally known. In keeping with the central role played by this concept in the development of the arguments for legal protection of trade secrets, we recommend that acts done fraudulently, without colour of right and with an intention to interfere with the economic advantage associated with a trade secret constitute an offence.

13.21 We also recommend that an intention to deprive a person of control of the trade secret represent a sufficient intention for criminal misappropriation. An individual who misappropriates a trade secret and thereby deprives the holder of control of the secret creates at least the risk of harm to the economic advantage derived from the confidentiality of the information. However the intention to deprive the holder of control is not identical to the intention to deprive the holder of the economic advantage associated with the trade secret unless an individual is presumed to intend the natural consequences of his acts. Given the principle of statutory interpretation that the provisions of a penal statute must be interpreted strictly,[287] it is not obvious that such a result would follow in every case. This result seems anomalous to us, as it raises the spectre that equally reprehensible behaviour could receive different treatment based on what are perceived to be insignificant differences in intent.

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[287] London County Council v. Aylesbury Dairy Co., [1898] 1 Q.B. 106; Parker v. The King, [1928] Ex. C.R. 36.

13.22 Acceptance of the intention to deprive of control as sufficient intent to render conduct criminal emphasizes that the nature of our offence is directed toward wrongful conduct *per se* rather than wrongful conduct that causes harm. This is suggestive of the proposed treatment at civil law where the torts are defined in general terms without reference to the harm suffered by the holder of the trade secret and the extent of harm is addressed in the context of the remedy available (damages).

13.23 Neither of the proposed intents utilizes any concept of temporary or permanent interference with either the economic advantage conferred by a trade secret or the control of the trade secret. Theft is primarily an offence against possession, and use of the concept of temporary deprivation in the definition of theft forecloses debate as to whether the intention to temporarily deprive an individual of his property constitutes theft. It is appropriate in that context. Sensible ideas are involved in speaking of temporary or permanent interferences with the possession of tangible objects. However where the intention is to deprive the holder of the economic advantage associated with the trade secret (or of control of the trade secret) it makes little sense to speak of a temporary deprivation.

13.24 In light of the requirement contained in our proposed section 301.3(1) that the acquisition, disclosure or use of the trade secret be done without consent, a further provision is necessary to deal with situations where the trade secret is acquired, disclosed or used with the consent of the holder but such consent is fraudulently obtained. The arguments developed in earlier chapters for criminalizing the misappropriation of trade secrets made no distinction between consensual (but fraudulent) acquisitions, disclosures or uses and non-consensual ones. Such "fraudulent" misappropriations are no less reprehensible than other forms of misappropriation and the civil remedies are no more effective. We therefore recommend that it be an offence to defraud any person of a trade secret.

13.25 Unlike the generality sought to be preserved in our description of the range of conduct proscribed under the proposed subsection 301.3(1), we are concerned in this latter instance with defining precisely the range of conduct rendered criminal: consent to the acquisition, disclosure or use of the trade secrets has been granted, and it is only if the consent is obtained by improper means that the conduct ought to engender the sanction of the criminal law.

13.26 Our proposed offence, section 338.1 of the draft legislation included in Part IV, is modelled on the existing fraud offence of the Criminal Code. Based on s. 338, we would require that the misappropriations be done "by deceit, falsehood or other fraudulent means", and specify that the object of the fraud is to induce a person to disclose, or to permit another person to disclose or use, a trade secret. This would criminalize the appropriation of a trade secret done with consent where the consent was fraudulently induced. We note that the decisions in R. v. Stewart[208] and R. v. Kirkwood[209] have eliminated the distinctions that have traditionally existed between the offences of fraud and theft, and that the reasoning behind these decisions suggests that our proposed s. 338.1 would also proscribe misappropriations of a trade secret done without consent.[300] This possibility, that the same conduct may be proscribed under two separate sections of the Criminal Code, could be eliminated by utilizing a different approach to misappropriation by way of fraud.[301] However, any such approach would raise substantial criminal law issues that transcend the particular problem of misappropriation of trade secrets. Given that the issue of proscribing the same behavior under two separate sections of the Criminal Code also exists generally with respect to the application of the theft and fraud provisions of the Code, we believe that the issue is more appropriately dealt with in the context of an overall reform of these provisions, rather than on a piecemeal basis. Our proposed offence therefore reflects the existing methodology of the Criminal Code.[302]

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[208] Note 101, supra.

[209] Note 117, supra.

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[300] See paragraph 4.55, supra.

[301] Such an approach might, for example, be based on Law Reform Commission of Canada, Theft and Fraud, Ottawa, 1979. The Law Reform Commission recommended revisions to the theft and fraud offences and in particular, suggested at p. 44, that fraud be defined in terms of dishonestly inducing a person to part with any property or suffer a financial loss by means of deceit, unfair non-disclosure or unfair exploitation. Such a provision could be made to apply to misappropriations of trade secrets by utilizing the concept of inducing the disclosure of a trade secret or the permission for another person to disclose or use the trade secret, in place of the idea of inducing a person to part with property. Alternatively, such an approach might be based on the provision of the Criminal Law Amendment Act, 1984 that died on the Order Paper of the Thirty-second Parliament: see paragraph 4.56, supra.

[302] In the event that the provisions of the Criminal Law Amendment Act, 1984 are reintroduced and enacted by Parliament, we recommend that corresponding changes to section 338.1 be made.

13.27 In formulating our proposed criminal provisions, we have rejected the notion that the magnitude of the value of the trade secret should somehow be relevant, either for the purposes of jurisdiction or classification of the offence. Federal courts in the United States have expended a great deal of time and effort in considering the manner in which a trade secret should be valued because of particular statutory requirements.[303] This exercise seems unnecessary. The gravamen of the offence is the wrongful conduct, not the acquisition, disclosure or use of a trade secret of a value in excess of a particular amount. We recommend that the offences should be similar to section 301.1, Theft or Forgery of a Credit Card, under which the accused is guilty of either an indictable offence or an offence punishable on summary conviction and suggest that the maximum sentences specified should recognize the serious nature of the conduct under scrutiny. The flexibility inherent in this approach avoids artificial obstacles such as the necessity of valuing the trade secret.

d. Included Offences

13.28 At criminal law the mens rea must go to all elements of the offence. In particular, an individual must know that the information appropriated constituted a trade secret before the individual can be convicted. In the result, in those situations where the Crown is unable to prove beyond a reasonable doubt that the accused was aware of all of the elements of the definition of a trade secret, the accused will not be convicted.

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[303] See for example United States v. Lester, 282 F. 2d 750; Abbot v. United States, 239 F. 2d 310. Both cases concerned the National Stolen Property Act, 18 U.S.C. s. 2314 which makes it a felony to transport in interstate or foreign commerce goods stolen, taken or converted by fraud of the value of $5,000 or more.

13.29 While this result may seem unduly biased in favour of trade secret "thieves", we are satisfied that in most cases but one it is consistent with the balancing of interests involved in extending legal protection to trade secrets. Punishing an individual who discloses or uses information that is a trade secret but who does not know that it is a trade secret would create a substantial, and in our opinion, unjustifiable barrier to the free flow of information.

13.30 There are certain limited circumstances however in which we feel that misappropriation without full knowledge should be treated as criminal, e.g. situations involving industrial espionage. Where the industrial thief is aware that information is the subject of reasonable efforts to maintain its secrecy, and fraudulently and without color of right circumvents those efforts to acquire the secret, we do not believe that he should escape liability only because of a failure to establish his knowledge of the other, ancillary features of the definition of trade secret.

13.31 The criminal law can respond to industrial espionage in a variety of different ways. For instance, in the course of our discussions it was suggested that industrial espionage could be discouraged by enacting a new offence akin to criminal trespass.[304] However, to clearly indicate the social reprobation with which industrial espionage is viewed, to address techniques in addition to trespass and to catch receivers of the trade secret, we recommend a specific offence to address the problem of acquisition without actual or reckless knowledge.

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[304] See paragraph 12.27. Under the criminal law of Ohio, Note 254, supra, it is an offence, without authorization, to enter upon premises of another with intent to obtain possession of or access to an article representing a trade secret.

13.32 We had originally considered that acquisition of a trade secret should be criminal regardless of whether the accused was aware that the information was used in a trade or business, was not generally known in that trade or business, or derived economic value from not being generally known. While the prosecution would still be required to prove under this formulation that the person acted fraudulently and without colour of right and with an intent to deprive and that the information that was acquired was actually a trade secret, it would only have to prove that the accused knew of the existence of two of the five elements of the definition of trade secret; i.e., that that which was acquired was information and that reasonable efforts were exerted under the circumstances to maintain the secrecy of the information. In recognition of the reduced degree of mental culpability, we had considered a lesser maximum penalty for this offence than that proposed for the ordinary offence of misappropriation.

13.33 However, as a result of a number of recent court cases concerning the presumption of innocence and the reversal of the burden of proof of an element of an offence,[305] principles of fundamental justice and absolute liability,[306] honest mistake of fact[307] and barring a "defence" of honest mistake of fact with respect to an element of the offence,[308] we are concerned that this type of offence might contravene section 7 and/or section 11(d) of the Canadian Charter of Rights and Freedoms.

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[305] R. v. Oakes, (S.C.C., February 28, 1986).

[306] Re s. 94(2) of the Motor Vehicle Act (S.C.C., Dec. 17/85).

[307] R. v. Pappajohn, (1980) 2 S.C.R. 120; Sansregret v. The Queen (1985), 18 C.C.C. (3d) 223 (S.C.C.).

13.34 In the alternative, we propose the creation of an included offence that does not impose absolute liability with respect to an element of the offence, but nevertheless requires a state of mind less than that of actual or reckless knowledge. We propose that an acquisition should be criminal if the accused was negligent in ascertaining whether or not the information was used in a trade or business, was not generally known in that trade or business or derived economic value from not being generally known. As above, proof would still be required that the information was a trade secret, that the accused knew that he or she was acquiring secret information and that he or she acted fraudulently and without a colour of right and with an intent to deprive. We again propose a lesser penalty than that for the offence requiring full knowledge. In addition to catching the espionage-acquirer who attempts to turn a blind or negligent eye to that which he or she is actively acquiring, the provision would also impose a duty on all subsequent receiver-acquirers to reasonably ascertain the true nature of the information before acquiring it from another person.

e. Defences

13.35 The language of our proposed offences has been deliberately selected to describe comprehensively the acts sought to be proscribed. In this subsection we consider certain types of behaviour to determine whether they should be characterized as criminal, and whether, in light of the comprehensive nature of our proposed offences, an express statement concerning the criminal or non-criminal characterization of such behavior is necessary or desirable. Our focus throughout this section is on the situations in which a trade secret is acquired, disclosed or used without consent. The fact that misappropriations by way of fraud are defined in terms of specific improper conduct means that these same issues do not arise with respect to that offence.

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[308] R. v. Stevens (1983), 3 C.C.C. (3d) 198 (Ont. C.A.); R. v. Roche, (1985), 20 C.C.C. (3d) 524 (Ont. C.A.). (These decisions were prior to the S.C.C. decisions in Oakes and Re s. 94(2) of the MVA, and may be suspect.)

13.36 We think that neither reverse engineering nor the independent development of a trade secret should, of itself, constitute an offence. There is nothing reprehensible in such behaviour, and the arguments developed for the intervention of the criminal law do not apply. While this result seems obvious, as was pointed out in paragraph 12.40, it would not necessarily follow in all cases. The possibility exists that a court would view as an offence the reverse engineering of a product that amounts to a violation of contractual provisions.

13.37 Further, both reverse engineering and independent development may be combined with other reprehensible conduct to lead to situations where the sanction of the criminal law would be appropriate, e.g. where a tangible object is misappropriated for the purposes of reverse engineering the trade secret embodied therein. We suggest therefore that an express statement to the effect that no person commits an offence in respect of information acquired by reason of independent development or by reason only of reverse engineering be included in the section defining the offences of non-consensual misappropriation.[309] Such a statement would clearly indicate the preferred treatment of both methods of acquisition. Further, it would acknowledge that reverse engineering, when combined with other improper acts, may be open to criminal liability.

13.38 This result could be accomplished by defining the conduct that is to be subject to liability in such a manner that both reverse engineering and independent development would be excluded. We believe for practical reasons that the matter is better handled by way of defence. Such an approach makes it unnecessary for the Crown to prove, in each case, that the trade secret was not acquired by such methods, but leaves it open for an accused to put the matter in issue.

13.39 Our review of American statutes described the provision utilized in California, Florida and Georgia[310] which provides, in effect, that it is not a defence that an accused returned or intended to return an article embodying a trade secret. We do not feel that an express statement to this effect is necessary. Our offences are directed toward the misappropriation of information, and the return of a tangible object is irrelevant to the question of whether the information was misappropriated.

13.40 Three American states have included provisions that provide that it is a defence to a charge of misappropriation for the accused to establish that the trade secret was either rightfully known to the accused or was available from another source.[311] We discuss the latter aspect of the defence first.

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[309] The defence is unnecessary in the proposed section 338.1. The conduct proscribed under section 338.1 is carefully defined in terms of improper means, and neither reverse engineering nor independent development falls within the purview of these offences.

[310] See paragraph 12.38, supra.

13.41 If information in fact exists elsewhere, a sufficient degree of availability of that information would mean that it is no longer a secret. Thus, there is the possibility of an "open" secret: information lying undetected in publicly available documents. Nevertheless, our offences seek to proscribe socially unacceptable conduct. It is anomalous to permit an accused to escape sanction on the basis that, while his or her conduct was egregious, and fell within the definition of the offence, it need not have been so since, had the accused wished, he or she might have acquired the trade secret from another source. We recommend that such a defence not be included.[312]

13.42 The defence that the information was rightfully known to the accused raises the issue of whether employees should be subject to criminal liability or be left to the reaches of the civil law. Under a provision that would make it a defence to establish that the trade secret was rightfully known, no employee would be criminally liable for the subsequent disclosure or use of trade secrets that he properly learned in the course of his employment.

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[311] Note 244, supra.

[312] We note that excluding information available elsewhere from the purview of the offence can be accomplished either by providing that the alternate availability of the information constitutes a defence, or by using a restrictive definition of trade secret under which information available from other sources does not qualify as a trade secret.

13.43 The proper treatment of the employee who appropriates the trade secret of his employer is not obvious. Certainly there is little doubt that the employee who amasses information with the intention of leaving his or her employer should be guilty of misappropriation of trade secrets. To hold otherwise would enable any potential trade secret thief to escape liability by obtaining employment with the holder of the trade secret.[313]

13.44 Different views exist however with respect to the employee who rightfully acquires a trade secret from the employer as part of his or her employment.

13.45 One view suggests that the mens rea is a sufficient safeguard to protect the innocent employee. An individual who accidentally uses information without realizing that his or her employer claimed trade secrecy protection for it would not be acting fraudulently and would therefore escape liability. However the individual who fraudulently and without colour of right utilizes information with an intention to deprive his or her former employer of the economic advantage associated therewith, knowing that it was a trade secret, was given to him or her for a specific purpose, and was not otherwise to be used, is guilty of criminal conduct and should be punished.

13.46 The alternate view rests upon due regard for the mobility of employees. It asserts that the employment relationship is one which, in the absence of something wrongful in the employee's acquisition of the trade secret, should be left to civil law. The employer and employee can regulate their relationship by contract, and the contract can be drafted in terms appropriate to the particular fact situation. The thousands of cases decided over the years illustrate how subtle is the distinction between trade secrets and information forming part of the general stock of knowledge. According to this view, it would be unduly harsh to subject the employee who misjudges the character of information to criminal penalties when what is frequently involved is a matter of judgment.

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[313] See paragraph 12.42, supra.

13.47 We have reached the conclusion, not without some hesitancy, that the employee who fraudulently and without colour of right and with the requisite intent, discloses or uses a trade secret should be subject to criminal liability. The innocent employee who discloses or uses a trade secret of his former employer will lack the necessary mens rea and should escape liability. However, conduct that is otherwise wrongful should not escape criminal liability merely because of the existence of a civil relationship. Further, the argument that the existence of a criminal sanction will have a negative effect on employee mobility is not a compelling one. Section 380 (Criminal Breach of Conduct) of the Criminal Code has had possible application to employees for many years without noticeably negative effects on employee mobility. The paucity of cases under the American theft of trade secrets statutes lends further support to the position that the free movement of employees will not be adversely affected. Finally, there is within the criminal law process always some measure of prosecutorial discretion. Whilst this factor, in and of itself cannot be counted on to entirely eliminate employer threats, we think it does provide a screening device which may provide an inhibiting effect on employers in some cases.

13.48 We do, however, recognize that the civil law has traditionally distinguished between trade secrets and information acquired by an employee in the course of his work where such information amounts to no more than an enhancement of the personal knowledge, skill or expertise of the employee.[314] In an increasingly technological society we believe it is appropriate to state clearly that employees are not to be restrained in the use of the personal knowledge, skill and expertise acquired by them in the course of their work. The statement should make it clear that not all information acquired in the normal course of employment is a trade secret, and affirm that employees are not to be restrained in their use of their general knowledge, skill and expertise. It should not, however, detract from the legal protection available to information that constituted a trade secret. We recommend that such a provision be included in the legislation.[315]

f. Third Parties

13.49 The third party who acquires a trade secret with knowledge that it has been misappropriated is no different than the individual who acquires stolen property with knowledge of its dishonest origin. The wrongful nature of the conduct is clear, and the third party should be subject to criminal liability. The statutory provisions recommended in this Report would impose it for the acquisition and any subsequent disclosure or use.

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[314] See Wis. Stat. Ann. s. 943.205(5) (West Supp. 1983).

[315] Reference to information acquired in the course of employment that amounts to no more than an enhancement of personal knowledge, skill or expertise is unnecessary in the proposed section 338.1. Such information, acquired in the course of work is by definition not acquired by the improper means referred to in 338.1.

13.50 The situation is different with respect to the individual who acquires a trade secret without knowledge that the trade secret has been previously misappropriated, and who only afterward learns of its dishonest origin. While the subsequent disclosure or use of the trade secret may deprive the original holder of the trade secret of the economic advantage associated therewith, it is difficult to characterize such use as fraudulent or without colour of right.

13.51 Further, the rationales for the intervention of the criminal law are not applicable to the situation of innocent third parties. We have suggested that the criminal law should be reserved for conduct that is reprehensible and for which other means of social control are inadequate. Use of a trade secret by an innocent third party acquirer does not appear to be sufficiently reprehensible to warrant criminal sanction. Indeed in many instances the use seems to be only rational commercial behaviour. It would be illogical for example to require a third party who incorporates a trade secret in a factory to stop using the factory solely because he or she later discovers the criminal history of the trade secret.

13.52 There is no evidence that other means of social control are inadequate. In fact the flexibility inherent in the civil law suggests that it is the superior vehicle to address the situation. One of the possible civil remedies of injunction, royalty, accounting or damages seems far likelier to produce a result appropriate to the circumstances of the innocent third party than would a criminal penalty.

13.53 We believe that the liability of an innocent third party for the subsequent use or disclosure of a trade secret should, for the reasons set out above, be dealt with at civil law. We also believe that the proposed legislation should say so. While the policy issues involved are relatively clear, the widespread inclination to address trade secret issues by way of property concepts presents the spectre that section 312 of the Code would be applied to such third party, either expressly, or by implication in interpreting the purview of the proposed s. 301.3.

13.54 The question arises, however, as to how "innocent" an acquirer must be in order to negate liability for his or her subsequent, and otherwise dishonest and unauthorized, disclosure or use of another's trade secret. We are of the opinion that since this matter concerns "criminal" liability, the degree of culpable knowledge that should deny a person the characteristic of "innocent" should be of the same quality. Therefore, unless a person can establish a lack of knowledge, at the time of acquisition of the trade secret, of criminal impropriety associated with the trade secret, he or she should be guilty of a subsequent dishonest and unauthorized disclosure or use. In other words, knowledge of only civil impropriety in the history of the trade secret will not deny an accused the protection of the provision we propose, if he or she can establish that he or she knew of no criminal impropriety.

13.55 Limiting the defence to lack of knowledge of criminal impropriety more closely parallels the offence of possession of stolen property in section 312 of the Criminal Code, whereby the accused must have knowledge that the property was originally obtained by crime, and not merely by civil impropriety. The difference between the offence in section 312 and that which we propose is that, with respect to section 312, the point of time relevant to the possession of knowledge is the time of possession of the property. For liability in respect of subsequent disclosure or use by an innocent acquirer of a trade secret, on the other hand, the point of time relevant to the possession of knowledge is not only the time of disclosure or use, but also (by way of defence) the time of acquisition of the trade secret. Therefore, due to this fact and the fact that, unlike section 312, we do not propose to penalize possession, an innocent acquirer of a trade secret, upon subsequently gaining knowledge of prior criminal impropriety, would not be thrown into a state of perpetual criminality.

13.56 The Crown, however, under our proposed offence need only prove the possession of knowledge at the time of disclosure or use; this is all that is required by the definition of the offence in our proposed section 301.3 (see appendix). The accused may prove, as a positive defence, that at the time of acquisition he or she lacked knowledge of any criminal impropriety associated with the trade secret. Since the point in time with respect to which the accused must establish this lack of knowledge is not directly relevant to proof of the requisites of the offence as defined in proposed section 301.3, we are of the opinion that this burden of proof on the accused does not violate the constitutional guarantee of a "presumption of innocence" in section 11(d) of the Canadian Charter of Rights and Freedoms; it does not constitute a reversal of the burden of proof with respect to an element of the offence that would otherwise be required to be discharged by the Crown.

g. The "Public Interest" Defence

13.57 In paragraphs 10.51 through 10.60 we examined the question of whether there exist situations in which an individual's proprietary interest in the confidentiality of a trade secret should yield to the right of the public to free access to certain types of information. We concluded that in cases of crime, fraud or other unlawful conduct, or some matter going to public health or safety, the public interest should be the overwhelming factor and individuals should have a defence to civil liability for misappropriation of trade secrets. The question arises whether such a defence should exist in the criminal context. We note that none of the American states that provide criminal penalties provide for such a defence.

13.58 There are two viewpoints on the necessity of such a defence. The first espouses a view that determinations of the public interest should be left to prosecutorial discretion. Otherwise, such a defence would be raised in each and every prosecution causing unwanted delays. Further, such a public interest defence might well be seized upon by activists who would use it to turn trials into political events.

13.59 The other view is that, absent such a defence, the criminal law would protect holders of trade secrets whose own conduct is reprehensible or even criminal, e.g. withholding a report that the holder's product will cause injury or death. In a situation in which a trade secret demonstrates that the holder is engaging in a criminal or other harmful activity, the criminal law should not make it a crime to report a crime.[316]

13.60 We believe that a public interest defence, in the same, limited terms as were proposed at civil law, should apply to criminal charges arising out of the disclosure of a trade secret.[317] We note that the concept of a public interest defence is not unknown to our criminal law. Certain sections of the Criminal Code already contain such defences, e.g. section 159 and section 281.2. The arguments against such a defence are unconvincing. The existence of such a defence is likely to be raised in individual cases whether or not express provision is made. Political activists for example are unlikely to ignore arguing, as a defence for their actions, the public interest, simply because express provision is not made for it in the Criminal Code. Furthermore, the law should not provide that conduct is criminal unless it is fully the intent of the law to proscribe such conduct. To create an offence and then leave to prosecutorial discretion the question of whether conduct is truly worthy of prosecution introduces a subjective element inappropriate to the criminal law.

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[316] See Note 284, supra.

[317] There can be no public interest defence of the narrow sort we are here discussing in the use of a trade secret. There has recently been a sharp difference of opinion in the U.K. between two differently constituted Courts of Appeal, as to whether a public interest defence ought to apply to information which was acquired illegally. We are of the view that criminality (such as illegal wire taps, or trespass) ought not to be condoned. If (say) a Watergate style break-in occurs and information is subsequently published and is of real public benefit, under our proposal, a Court could still convict on the break-in (and take the particular circumstances into account on sentence) and excuse the publication. For the English cases see Francome v. Mirror Group Newspapers Ltd. [1984] 2 All E.R. 408 (C.A.) and Lion Laboratories v. Evans [1984] 2 All E.R. 417 (C.A.). See also, Hammond, "Copyright, Confidence and the Public Interest Defence: Mole's Charter or Necessary Safeguard?" (1985) 1 I.P.J. 293.

13.61 The circumstances giving rise to the defence should be limited to situations in which the public interest in access to the information clearly outweighs the social interest in condemning wrongful conduct. These circumstances appear to involve the same limited examples acknowledged at civil law: crime, fraud, or other unlawful conduct, or some matter going to public health and safety. The disclosure giving rise to the defence must be done with the purpose of exposing such behaviour or protecting public health and safety. However, the acquisition, by a crime, of information that was motivated with such public benefit in mind should not be excused. We do not wish to encourage espionage or other offences such as theft of property or break and enter with intent to commit an indictable offence. Otherwise the end (disclosure for the public benefit) would justify the means of acquisition no matter how unlawful it might be. We prefer to let prosecutorial discretion apply here. We have also not extended the defence to an otherwise unlawful use that is motivated by public benefit. A person who has unlawfully acquired a trade secret or who has knowledge of prior illegality should not, under the guise of public benefit, maintain the secret and privately reap the fruit of either an unlawful acquisition or even a lawful disclosure made for public benefit. On the other hand, where the disclosure is publicly made, the "trade secret" is destroyed. The publicity negates the existence of the secret and everyone, including the acquirer and discloser, is free to use the information, subject to any other rights arising such as patent or other civil remedy.

13.62 Being a positive defence rather than a negation of the mens rea, the burden of proof should be on the accused to establish that the disclosure was for the public benefit.

h. The Right of an Accused to a Public Trial

13.63 There is a practical problem associated with any attempt to prosecute a charge of criminal misappropriation of trade secrets. The necessity of proving beyond a reasonable doubt all elements of the offence will require at least limited details of the trade secret to be put before the court. This act of disclosure may well destroy the element of secrecy. Absent some guarantee that the confidentiality of information will be preserved, persons with an interest in trade secrets will be reluctant to prosecute. While holding the hearing, or parts of, it, in camera appears to be a solution, regard must be had for the guarantee of a public trial contained in section 11(d) of the Charter of Rights and Freedoms:

> 11. Any person charged with an offence has the right
>
> (d) to be presumed innocent until proven guilty according to law in a fair and public hearing by an independent and impartial tribunal ....[318]

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[318] The conflict between the right of an accused to a public trial and the undesirability of the disclosure of a trade secret in open court has also been an issue in the United States where the Sixth Amendment guarantees an accused the right to a "speedy and public trial". In Stamicarbon, N.V. v. American Cyanamid Company, 506 F. 2d 532, the licensor of a trade secret sought a preliminary injunction to prevent disclosure of the trade secret of the licensee in a pending criminal contempt proceeding. This injunction was refused and a motion requiring that the evidence relating to the trade secret be taken in camera was denied. The Second Circuit Court of Appeals affirmed the decision of the trial judge on the basis that the trial judge had not abused his discretion in finding that the probability of irreparable injury from disclosure of secrets in a contempt trial did not justify the injunction. However, the Court of Appeal indicated their belief that the trial judge did have the power to at least partially restrict access to the contempt

Section 1 of the Charter provides that this right to a public hearing is subject to "such reasonable limits prescribed by law as can be demonstrably justified in a free and democratic society."

13.64 Section 442 of the Criminal Code provides:

> 442(1) Any proceedings against an accused that is a corporation or who is or appears to be sixteeen years of age or more shall be held in open court, but where the presiding judge, magistrate or justice, as the case may be, is of the opinion that it is in the interest of public morals, the maintenance of order or the proper administration of justice to exclude all or any members of the public from the courtroom for all or part of the proceedings, he may so order.

13.65 In Regina v. L'Esperance[319] it was held that, having regard to section 1 of the Charter, it could not be said that section 442 of the Criminal Code offends the Charter. Thus the Court retained its discretion to exclude the public during the testmony of a child complainant on a charge of rape. Similarily, in R. v. Lefebvre[320], it was held that the trial judge could grant, under section 442, the application of the Crown to exclude the public during testimony of a complainant in a rape trial where such an order was necessary for the proper administration of justice. There, the presence of the public made the victim so nervous that she could not testify. The adverse effect that the

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[318] (cont'd) proceedings when testimony which would reveal the trade secrets was received. The Court of Appeal referred to cases in which the need to protect witnesses in rape cases against embarrassment had justified closing a court and indicated that a similar result could be justified in the case at hand if the trial judge were to find that Stamicarbon would suffer irreparable injury and that protection of its secrets could be achieved with minimal disruption of the criminal proceedings.

[319] 8 W.C.B. 352 (Que. C.T. Sess.).

[320] (1984), 17 C.C.C. (3d) 277 (Que. C.A.).

failure of the victim to testify would have on the administration of justice was held to be a proper ground for the exercise of discretion to exclude the public. However Kaufman, J. in the course of his decision stated:

> I must, however, emphasize that public trials are the order (a point now strengthened by the *Canadian Charter of Rights and Freedoms*) and any exceptions (as provided for in s. 442) must be substantiated on a case by case basis.

13.66 These cases suggest that a specific statutory provision declaring that all prosecutions for criminal misappropriations of trade secrets are to be held *in camera* is likely to violate the guarantee to a public trial contained in the *Charter*. There should be no difficulty, however, in the application for an *in camera* hearing being granted, at least with respect to that part of the trial concerning details of the trade secrets, where it can be demonstrated that to permit testimony in open court would destroy the value of the trade secret,[321] or hinder the proper administration of justice.

i. *Relationship of Trade Secret Offences to Other Property-Related Offences*

13.67 As set out above, we have rejected the notion that a trade secret should be property in the large sense while accepting the notion that there is an interest in the confidentiality of trade secrets that is proprietary in nature. Nevertheless, the Ontario Court of Appeal decision in Stewart raises the spectre that trade secrets per se, being information of a confidential nature, could be subject to all of the property-related provisions of the Criminal Code. There are 76 sections or headings in the Criminal Code that refer to the term "property". Some of these provisions can have no application to trade secrets since they only apply, expressly or implicitly, to real property[322] or corporeal property.[323] Other provisions, by their nature, are otherwise inapplicable or should not apply to trade secrets.[324] Another group of property-related provisions, if applicable to trade secrets, would conflict with the legislative scheme for misappropriation proposed in this report.[325] The last group consists of a number of property-related provisions that contain concepts or offences that should be extended to apply to trade secrets.[326]

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[321] Id., p. 282. *See also Re Edmonton Journal and Attorney General for Alberta* (1983), 4 C.C.C. 93d) 59. The Court found that section 11(d) of the Charter was violated by section 12(1) of the *Juvenile Delinquents Act* which required that the trials of juveniles be held *in camera*. The court acknowledged that section 1 of the *Charter* would support an abridgement of the guarantee to a public hearing in cases where there was a need to protect social values of "superordinate" importance. However, such was not the case in *all* trials, and section 12(1) was therefore *ultra vires*.

13.68 In this study, we have examined only the subject area of trade secrets and not other types of information. At the time of this report, Stewart is pending before the Supreme Court of Canada and we understand that Offley is also to be appealed to that Court. For that reason, and the limitations on the scope of this project, we make no recommendations at this time concerning the present judicially expounded relationship between other categories of information and property concepts. With respect to the relationship between property and the proposed concept of trade secrets, we do, however, propose that the Criminal Code should explicitly provide that trade secrets be excluded from the definition of "property" in s. 2 of the Criminal Code. Concurrently, we propose the enactment of the new offences discussed above, and the amendment of particular provisions to extend their application to trade secrets. These proposed provisions are set out in Part IV of this report. There may be room for debate as to how far, if at all, the suggested consequential amendments may be necessary. Our intention in drawing attention to these consequential problems is not to finally resolve each of those possible amendments, but to ensure that they are not overlooked by a draftsman should legislation follow this Report. The amendments also demonstrate the potential "ripple" effect of the decision in Stewart.

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[322] Sections 41, 42, 73, 170, 173, 343, 344 and 345.

[323] Sections 3, 38, 284, 298, 299, 385, 387, 389, 390, 391, 392, 393 and 705.

[324] Sections 6, 77, 78, 79, 174, 176, 178.11, 181, 186, 188, 232, 284, 289, 298, 299, 331, 337, 346, 348, 374, 375, 381 and 449.

[325] Sections 282, 283, 288, 290, 291, 292, 294, 297, 302, 305.1, 312, 315, 317, 318, 320, 338, 380, 381, 483, 517, 742 and 745.

[326] Sections 2, 27, 39, 52, 312, 315, 317, 318, 350, 361, 380, 455, 512, 522, 616, 653, 654 and 655. (See Appendix)

13.69 Another group of offences in the Criminal Code, while not explicitly referring to the term "property", do have application to property. These offences refer to the term "anything" or "thing". Although the term "anything" in the offence of theft in section 283 has been judicially defined as requiring that the "thing" constitute property (either tangible or intangible),[327] references to the term in other sections have not been judicially restricted in the same manner; for example, the offence of extortion in section 305 also applies to things that do not constitute property.[328] Accordingly, we contemplate that with respect to offences that are not related to theft, the term "anything" in the definition of these offences may in appropriate cases include and be applicable to trade secrets. We, therefore, make no recommendation in respect of these types of offences, and suggest the law run its normal course.

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[327] R. v. Scallen (1974), 15 C.C.C. (2d) 441 (B.C.C.A.).

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[328] R. v. Bird, [1970] 3 C.C.C. 340, 9 C.R.N.S. 1. (B.C.C.A.). See also section 296, Criminal Breach of Trust.

PART IV

DRAFT LEGISLATION

TRADE SECRETS PROTECTION ACT

DEFINITIONS

1 In this Act,

(a) "Court" means [a superior Court with appropriate jurisdiction].

(b) "trade secret" means information including but not limited to a formula, pattern, compilation, programme, method, technique, or process, or information contained or embodied in a product device or mechanism which

(i) is, or may be used in a trade or business,

(ii) is not generally known in that trade or business,

(iii) has economic value from not being generally known, and

(iv) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

APPLICATION

2(1) The Crown is bound by this Act.

(2) This Act does not affect any rules of equity or the common law by virtue of which obligations of confidence arise with respect to the acquisition disclosure or use of confidential information.

(3) The Contributory Negligence Act [citation for the particular jurisdiction] does not apply to proceedings under this Act.

(4) Nothing in this Act is intended to impose on any person any liability for the acquisition disclosure or use of information, where that information was acquired in the course of a person's work, and the information is of such a character that the acquisition thereof amounts to no more than an enhancement of that person's personal knowledge, skill or expertise.

IMPROPER ACQUISITION ACTIONABLE

3(1) Acquisition of a trade secret by improper means is a tort and, subject to the provisions of this Act, proceedings may be brought in respect of such acquisition by any person entitled to the benefit of the trade secret in like manner as any other proceedings in tort.

(2) For the purpose of this section, a trade secret is not acquired by improper means if it was arrived at by independent development or reverse engineering alone.

(3) For the purposes of this section, improper means includes commercial espionage by electronic or other means.

(4) Proceedings brought by virtue of this section are referred to in this Act as proceedings for improper acquisition of a trade secret.

IMPROPER DISCLOSURE OR USE ACTIONABLE

4(1) Disclosure or use of a trade secret is a tort if the discloser or user of that trade secret knows or ought to have known that he does not have lawful authority to disclose or use the trade secret in the manner in which he in fact does so and, subject to the provisions of this Act, proceedings may be brought in respect of such disclosure or use by any person entitled to the benefit of the trade secret in like manner as any other proceedings in tort.

(2) Proceedings brought by virtue of this section are referred to in this Act as proceedings for improper disclosure or use of a trade secret.

REMEDIES

5(1) In any proceedings for improper acquisition disclosure or use of a trade secret the Court may, subject to sub-sections (2) and (3) hereof, and section 11,

(a) grant an injunction in accordance with section 6; or

(b) award damages in accordance with sections 7 and 9; or

(c) order an account of profits under section 8; or

(d) make an adjustment order under section 10; or

(e) order the defendent to deliver up or destroy any thing in which the trade secret to which the improper acquisition disclosure or use relates is contained or embodied; or

(f) do any one or more of those things.

(2) The Court shall not exercise its discretion to award both compensatory damages and an account of profits in such manner as to allow a plaintiff to recover twice for the same loss.

(3) Nothing in this section prejudices any jurisdiction of the Court to grant ancillary or incidental relief.

INJUNCTIONS

6(1) The Court may, subject to section 5, grant an interlocutory or permanent injunction with respect to the improper acquisition disclosure or use of a trade secret.

(2) Upon application to the Court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for such additional period of time as the Court thinks is reasonable in order to eliminate any commercial advantage that would otherwise accrue to the defendant from the improper acquisition disclosure or use.

DAMAGES

7 The plaintiff may, subject to section 5, recover damages for the loss caused by the improper acquisition disclosure or use of a trade secret.

ACCOUNT OF PROFITS

8 The Court may, subject to section 5, order the defendant to account to the plaintiff for any profits that have accrued, or that subsequently may accrue to the defendant by reason or in consequence of the improper acquisition disclosure or use of a trade secret.

EXEMPLARY DAMAGES

9 The Court may, subject to section 5, award exemplary damages for the improper acquisition disclosure or use of a trade secret.

ADJUSTMENT ORDERS

10(1) The Court may, subject to section 5, make an adjustment order regulating future exploitation of the trade secret by the defendant, or by both the plaintiff and the defendant.

(2) An adjustment order under sub-section (1) may include any or all of the following

(a) payment to the plaintiff of a royalty with respect to the future use by the defendant of the trade secret in such amount and upon such terms as the Court thinks just;

(b) contribution by the defendant to the plaintiff for expenses incurred by the plaintiff in connection with acquiring or developing the trade secret, and which are liable to be wasted by reason of the defendant being permitted to exploit the trade secret in future;

(c) a determination of any incidental question relating to the extent to which both the plaintiff and the defendant shall be free to exploit the trade secret in future and the rights and liabilities of each.

GOOD FAITH ACQUISITION DISCLOSURE OR USE

11(1) Where a person in good faith acquires, discloses or uses a trade secret, and subsequently learns that a person entitled to the benefit of that trade secret under the provisions of this Act has been deprived thereof by improper means or by mistake, either the person entitled to that benefit or the person who has so acquired disclosed or used the trade secret in good faith may bring an action for a declaration of the rights of the parties.

(2) In an action under sub-section (1) the Court shall determine the rights of the parties in accordance with the following principles:

(a) A person entitled to the benefit of a trade secret is within the protective scheme of this Act, but

(b) Notwithstanding sub-section (a), a good faith acquirer discloser or user shall be entitled to disclose, use and transfer the trade secret to the extent which is just and reasonable having regard to

(i) the value of the consideration given by such person for the trade secret, and

(ii) any change in the position of such person in reliance upon or in order to exploit the trade secret made before he discovered that the person entitled to the benefit of the trade secret had been deprived thereof by improper means or mistake as the case may be, and

(iii) the protection granted by this Act to the person entitled to the benefit of a trade secret.

(3) In an action under sub-section (1) the Court may

(a) make such interim order to protect the interests and preserve the rights of the parties as may be just, or

(b) as if the action were an action referred to in section 5 award, grant, order or make such remedy as may be appropriate in the circumstances of the particular case.

DEFENCES

12(1) In any proceedings for improper disclosure or use of a trade secret it is a defence to prove that the disclosure was required to be made to a Court or Tribunal in pursuance of any power in that Court or Tribunal to order the disclosure of information.

(2) In any proceedings for improper disclosure or use of a trade secret the defendant shall not be liable to the plaintiff in any respect if he satisfies the Court that

(a) in view of the nature of the trade secret, there was, or (in the case of an apprehended disclosure or use) will be, at the time of such disclosure or use a public interest involved in the trade secret being so disclosed or used, and

(b) that such public interest outweighs the public interest involved in upholding the trade secret.

(3) For the purposes of sub-section (2) a public interest in the the disclosure or use of a trade secret means the interest of the public at large in being made aware of the existence of a crime, fraud, other unlawful conduct or a matter affecting public health or safety in relation to the creation, composition or utilization of the trade secret.

(4) When balancing the public interest involved for the purposes of sub-section (2) the Court shall have regard to all the circumstances of the case, including

(a) the nature of the trade secret;

(b) the circumstances under which the trade secret was, or is to be, disclosed or used by the defendant; and

(c) the extent and nature of the particular disclosure or use of the trade secret in issue as compared with the extent and nature of the disclosure or use which appears to be justified by the public interest on which the defendant relies.

(5) Defences generally available in tort proceedings are available in proceedings for the improper acquisition disclosure or use of a trade secret.

PRESERVATION OF SECRECY

13(1) In any proceedings under this Act, the Court may, at any time, upon application, make an order directing by what means the secrecy of a trade secret at issue in the proceedings shall be preserved.

(2) Without limiting the generality of subsection (1), the Court may

(a) hold in camera hearings; or

(b) order that all or any of the records of the proceedings be sealed; or

(c) order any person involved in the proceedings not to disclose an alleged trade secret without prior Court approval.

ASSIGNABILITY

14 A person entitled to the benefit of a trade secret may assign the right to that trade secret, either wholly or partially, and either generally or subject to territorial limitations, and may grant an interest in the trade secret by licence or otherwise.

LIMITATIONS

15(1) Proceedings for the improper acquisition disclosure or use of a trade secret must be commenced within two years after the acquisition disclosure or use as the case may be is discovered or by the exercise of reasonable diligence should have been discovered.

(2) For the purposes of this section, a continuing disclosure or use constitutes a single claim.

OR

If a discovery rule is not desired in the particular jurisdiction, add the usual tort period for that jurisdiction, calculated from that point at which the cause of action arose.

DRAFT CRIMINAL CODE PROVISIONS

Misappropriation of Trade Secrets

301.3(1) Everyone who fraudulently and without colour of right acquires, discloses or uses the trade secret of another person, without the consent of that other person, with intent deprive that other person

(a) of control of the trade secret, or

(b) of an economic advantage associated with the trade secret

is guilty of an indictable offence and is liable to imprisonment for ten years, or of an offence punishable on summary conviction.

Acquisition with negligent knowledge

(2) Every one commits an offence who, in respect of the acquisition of a trade secret, would have committed an offence under subsection (1) if he had known that the information constituting the trade secret

(a) is, or may be used in a trade or business,

(b) is not generally known in that trade or business, or

(c) has economic value from not being generally known

and did not take reasonable steps to ascertain whether or not the information was of a character as described in either of paragraphs (a) to (c), as the case may be.

(3) Every one who commits an offence under subsection (2) is guilty of an indictable offence and is liable to imprisonment for five years, or of an offence punishable on summary conviction.

Lawful acquisition, disclosure or use

(4) No person commits an offence under this section in respect of an acquisition, disclosure or use of a trade secret if

(a) the trade secret was acquired by independent development or by reason only of reverse engineering;

or

(b) the information was acquired in the course of that person's work, and the information is of such a nature that the acquisition amounts to no more than an enhancement of that person's personal knowledge, skill or expertise.

Defence of public interest

(5) No person commits an offence under this section in respect of the disclosure of a trade secret if that person establishes that the trade secret was disclosed for the purpose of

(a) exposing crime, fraud or any other unlawful conduct, or

(b) protecting public health or safety.

Defence of bona fide acquisition

(6) No person commits an offence under this section in respect of a disclosure or use of a trade secret if that person establishes that, at the time he acquired it, he did not have knowledge that it was

(a) a trade secret, or

(b) obtained by or derived directly or indirectly from

(i) the commission in Canada of an offence punishable by indictment, or

(ii) the commission of an act or omission anywhere that, if it had occurred in Canada, would have constituted an offence punishable byindictment.

Definitions

(7) For the purposes of this Act

"trade secret" means information including but not limited to a formula, pattern, compilation, program, method, technique or process, or information contained or embodied in a product, device or mechanism which:

(i) is, or may be used in a trade or business

(ii) is not generally known in that trade or business

(iii) has economic value from not being generally known, and

(iv) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

"trade secret of another person" means a trade secret that the other person has in possession, control or custody or in which that person has a special interest.

Fraudulent Misappropriation

s. 338.1(1) Every on who, by deceit, falsehood or other fraudulent means, whether or not it is a false pretence within the meaning of this Act, induces any person to disclose, or to permit another person to disclose or use, a trade secret, is guilty of an indictable offence and is liable to imprisonment for ten years, or of an offence punishable on summary conviction.

Fraudulent Misappropriation with Negligent Knowledge

(2) Every one commits an offence who would have committed an offence under subsection (1) if that person had known that the information constituting the trade secret

(a) is, or may be used in a trade or business,

(b) is not generally known in that trade or business,

or

(c) has economic value from not being generally known,

and did not take reasonable steps to ascertain whether or not the information is of a character as described in either of paragraphs (a) to (c), as the case may be.

(3) Every one who commits an offence under subsection (2) is guilty of an indictable offence and is liable to imprisonment for five years, or of an offence punishable on summary conviction.

(Note: The above provisions have been drafted in accordance wth the present Criminal Code R.S.C. 1970, c. 34, as am. If the provisions of former Bill C-19, the proposed Criminal Law Amendment Act, 1984, were to be reintroduced and enacted by Parliament, corresponding changes to the above draft would be required.)

CONSEQUENTIAL AMENDMENTS TO THE CRIMINAL CODE

[Note: Changes to the existing sections of the Code are underlined.]

Section 2. In this Act...

"property" includes

(a) real and personal property of every description and deeds and instruments relating to or evidencing the title or right to property or a trade secret, or giving a right to recover or receive money or goods, or to benefit of a trade secret, but does not include the information that constitutes a trade secret,

(b) property originally in the possession or under the control of any person, and any property into or for which it has been converted or exchanged and anything acquired at any time by such conversion or exchange, and

(c) any postal card, postage stamp or other stamp issued or prepared for issue under the authority of the Parliament of Canada or of the legislature of a province for the payment to the Crown or a corporate body of any fee, rate or duty, whether or not it is in the possession of the Crown or of any person;

USE OF FORCE TO PREVENT COMMISSION OF OFFENCE

27. Every one is justified in using as much force as is reasonably necessary

(a) to prevent the commission of an offence

(i) for which, if it were committed, the person who committed it might be arrested without warrant, and

(ii) that would be likely to cause immediate and serious injury to the person, property or economic advantage associated with the trade secret of anyone; or

(b) to prevent anything being done that, on reasonable and probable grounds he believes would, if it were done, be an offence mentioned in paragraph (a).

DEFENCE WITH CLAIM OF RIGHT - Defence without claim of right

39.(1) Every one who is in peaceable possession of movable property or a trade secret under a claim of right and every one acting under his authority is protected from criminal responsibility for defending that possession, even against a person entitled by law to possession of it, if he uses no more force than is necessary.

(2) Every one who is in peaceable possession of movable property or a trade secret, but does not claim it as of right or does not act under the authority of a person who claims it as of right, is not justified or protected from criminal responsibility for defending his possession against a person who is entitled by law to possession of it.

SABOTAGE - "Prohibited act" - Saving - Idem.

52.(1) Every one who does a prohibited act for a purpose prejudicial to

- (a) the safety, security or defence of Canada, or
- (b) the safety or security of the naval, army or air forces of any state other than Canada that are lawfully present in Canada,

is guilty of an indictable offence and is liable to imprisonment for ten years.

(2) In this section, "prohibited act" means an act or omission that

- (a) impairs the efficiency or impedes the working of any vessel, vehicle, aircraft, machinery, apparatus or other thing, or
- (b) causes property, by whomsoever it may be owned, to be lost, damaged or destroyed, or
- (c) causes data to be destroyed or altered, or
- (d) cases a trade secret to be disclosed.

(3) No person does a prohibited act within the meaning of this section by reason only that

- (a) he stops work as a result of the failure of his employer and himself to agree upon any matter relating to his employment,
- (b) he stops work as a result of the failure of his employer and a bargaining agent acting on his behalf to agree upon any matter relating to his employment, or
- (c) he stops work as a result of his taking part in a combination of workmen or employees for their own reasonable protection as workmen or employees.

(4) No person does a prohibited act within the meaning of this section by reason only that he attends at or near or approaches a dwelling-house or place for the purpose only of obtaining or communicating information.

(5) In this section, "data" has the same meaning as in section 301.2.

POSSESSION OF PROPERTY OBTAINED BY CRIME - Obliterated vehicle identification number - "Vehicle identification number" defined.

312.(1) Every one commits an offence who has in his possession any property or thing or any proceeds of any property or thing knowing that all or part of the property or thing or of the proceeds was obtained by or derived directly or indirectly from

(a) the commission in Canada of an offence punishable by indictment; or

(b) an act or omission anywhere that, if it had occurred in Canada, would have constituted an offence punishable by indictment.

...

(4) Subsection (1) does not apply to the possession of information that constitutes a trade secret, but does apply, mutatis mutandis, to the possession of the proceeds thereof, or of a product, device or mechanism that contains or embodies information that constitutes a trade secret.

BRINGING INTO CANADA PROPERTY OBTAINED BY CRIME

315. Every one who brings into or has in Canada anything that he has obtained outside Canada by an act that, if it had been committed in Canada, would have been the offence of theft or an offence under section 301.1, 301.3 or 312, is guilty of an indictable offence and is liable to a term of imprisonment not exceeding ten years.

EVIDENCE - Notice to accused

317.(1) Where an accused is charged with an offence under section 301.1 or 312, paragraph 314(1)(b) or section 301.3 in respect of the disclosure or use of a trade secret, evidence is admissible at any stage of the proceedings to show that property or a trade secret other than the property or trade secret that is the subject matter of the proceedings

(a) was found in the possession of the accused, and

(b) in the case of property, was stolen or, in the case of a trade secret, was acquired contrary to section 301.3 within twelve months before the proceedings were commenced,

and that evidence may be considered for the purpose of proving that the accused knew that the property or trade secret forming the subject matter of the proceedings was stolen property or a trade secret acquired contrary to section 301.3, as the case may be.

(2) Subsection (1) does not apply unless

(a) at least three days notice in writing is given to the accused that in the proceedings it is intended to prove that property other than the property that is the subject matter of the proceedings was found in his possession, and

(b) the notice sets out the nature or description of the property and describes the person from whom it is alleged to have been stolen.

EVIDENCE OF PREVIOUS CONVICTION - Notice to accused

318(1) Where an accused is charged with an offence under section 312, paragraph 314(1)(b) or section 301.3 in respect of the disclosure or use of a trade secret, and evidence is adduced that the subject-matter of the proceedings was found in his possession, evidence that the accused was, within five years before the proceedings were commenced, convicted of an offence involving theft or an offence under sections 312 or 301.3 is admissible at any stage of the proceedings and may be taken into consideration for the purpose of proving that the accused knew that the property or trade secret that forms the subject-matter of the proceedings was unlawfully obtained, as the case may be.

(2) Subsection (1) does not apply unless at least three days notice in writing is given to the accused that in the proceedings it is intended to prove the previous conviction.

DISPOSAL OF PROPERTY TO DEFRAUD CREDITORS

350. Every one who,

(a) with intent to defraud his creditors,

(i) makes or causes to be made a gift, conveyance, assignment, sale, transfer or delivery of his property,

(ii) removes, conceals or disposes of any of his property, or

(iii) assigns or otherwise disposes of a benefit of a trade secret to which he is entitled, or

(b) with intent that any one should defraud his creditors, receives any property or benefit of a trade secret by means of or in relation to which an offence has been committed under paragraph (a),

is guilty of an indictable offence and is liable to imprisonment for two years.

PERSONATION WITH INTENT

361. Every one who fraudulently personates any person, living or dead,

(a) with intent to gain advantage for himself or another person,

(b) with intent to obtain any property or trade secret or an interest in any property or trade secret, or

(c) with intent to cause disadvantage to the person whom he personates or another person,

is guilty of an indictable offence and is liable to imprisonment for fourteen years.

IN WHAT CASES JUSTICE MAY RECEIVE INFORMATION.

455. Any one who, on reasonble and probable grounds, believes that a person has committed an indictable offence may lay an information in writing and under oath before a justice, and the justice shall receive the information, where it is alleged

(a) that the person has committed, anywhere, an indictable offence that may be tried in the province in which the justice resides, and that the person

(i) is or is believed to be, or

(ii) resides or is believed to reside, within the territorial jurisdiction of the justice;

(b) that the person, wherever he may be, has committed an indictable offence within the territorial jurisdiction of the justice;

(c) that the person has, anywhere, unlawfully received property or a trade secret that was unlawfully obtained within the territorial jurisdiction of the justice; or

(d) that the person has in his possession stolen property within the territorial jurisdiction of the justice.

CERTAIN OMISSIONS NOT GROUNDS FOR OBJECTION.

512. No count in an indictment is insufficient by reason of the absence of details where, in the opinion of the court, the count otherwise fulfils the requirements of section 510 and, without restricting the generality of the foregoing, no count in an indictment is insufficient by reason only that

(b) it does not name the person who owns or has a special property or interest in property mentioned in the count,

(b.1) it does not name the person who has a special interest in a trade secret mentioned in the count, TRIAL OF PERSONS JOINTLY FOR HAVING IN POSSESSION--Conviction of one or more.

522.1(1) Any number of persons may be charged in the same indictment with an offence under sections 301.3 or 312 or paragraph 314(1)(b), notwithstanding that

(a) the property was had in possession at different times;

(a.1) the trade secret was had in possession, control or custody at different times; or

(b) the person by whom the property was obtained or the trade secret acquired

(i) is not indicted with them, or

(ii) is not in custody or is not amenable to justice.

(2) Where, pursuant to subsection (1), two or more persons are charged in the same indictment with an offence referred to in that subsection, any one or more of those persons who separately committed the offence in respect of the property or any part of it or of the trade secret may be convicted.

RESTITUTION OF PROPERTY OR A TRADE SECRET - Annulling or varying order.

616.(1) Where an order for compensation or for the restitution of property or a trade secret is made by the trial court under section 653, 654 or 655, the operation of the order is suspended

(a) until the expiration of the period prescribed by rules of court for the giving of notice of appeal or of notice of application for leave to appeal, unless the accused waives an appeal, and

(b) until the appeal or application for leave to appeal has been determined, where an appeal is taken or application for leave to appeal is made.

(2) The court of appeal may by order annul or vary an order made by the trial court with respect to compensation or the restitution of property or a trade secret within the limits prescribed by the provision under which the order was made by the trial court, whether or not the conviction is quashed.

COMPENSATION FOR LOSS OF PROPERTY OR TRADE SECRET

653.1(1) A court that convicts or discharges under section 662.1 an accused of an offence may, on the application of a person aggrieved, at the time sentence is imposed, order the accused to pay to that person an amount by way of satisfaction or compensation for

(a) loss of or damage to property, or

(b) deprivation of control of a trade secret or of an economic advantage associated with a trade secret

suffered by that person as a result of the commission of the offence.

COMPENSATION TO BONA FIDE PURCHASERS

Subsection 654(1) of the Criminal Code is repealed and the following substituted therefore:

654(1) Where an accused is convicted or discharged under section 662.1 of an offence and

(a) any property obtained as a result of the commission of the offence has been sold to an innocent purchaser, or

(b) any right to the benefit of a trade secret obtained as a result of the commission of the offence has been assigned to an innocent assignee,

the court may, on the application of the purchaser or assignee after restitution of

(d) the property to its owner, or

(e) the trade secret to the person entitled to possession, control or custody thereof or who has a special interest therein,

order the accused to pay to the purchaser or assignee, an amount not exceeding the amount paid by the purchaser for the property or by the assignee for the right to benefit of the trade secret, as the case may be.

ORDER FOR RESTITUTION OF PROPERTY OR A TRADE SECRET

655(1) Where an accused is convicted of an indictable offence the court shall order that any property or trade secret obtained by the commission of the offence shall be restored to the person entitled to it, if at the time of the trial

(a) in the case of property, the property is, or

(b) in the case of a trade secret, the trade secret is in a form that it may be and is

before the court or has been detained so that it can be immediately restored to that person under the order.

(2) Where an accused is tried for an indictable offence but is not convicted, and the court finds that an indictable offence has been committed, the court may order that any property or trade secret obtained by the commission of the offence shall be restored to the person entitled to it, if at the time of the trial,

(a) in the case of property, the property is, or

(b) in the case of a trade secret, the trade secret is in a form that it may be and is

before the court or has been detained so that it can be immediately restored to that person under the order.

(3) An order shall not be made under this section in respect of

(a) property to which an innocent purchaser for value has acquired lawful title,

(a.1) a trade secret to which an innocent assignee for value has acquired a lawful right to benefit of the trade secret,

(b) a valuable security that has been paid or discharged in good faith by a person who was liable to pay or discharge it,

(c) a negotiable instrument that has, in good faith, been taken or received by transfer or delivery for valuable consideration by a person who had no notice and no reasonable cause to suspect that an indictable offence had been committed,

(d) property in respect of which there is a dispute as to ownership or right of possession by claimants other than the accused, or

(e) a trade secret in respect of which there is a dispute as to the right of possession, control or custody thereof or of a special interest therein.

PART V - APPENDIX

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